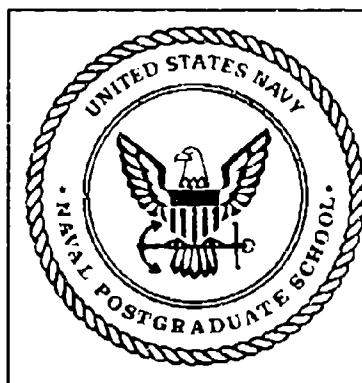


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THESIS

Reasons for OMB Circular A-76 Contract Cost
Increases for U. S. Coast Guard Activities
and Perceptions of the USCG A-76 Program

by

Jon Michael Watson

December, 1991

Thesis Advisor:

R. F. Matsushima

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Jon M. Watson
Lieutenant Commander, U. S. Coast Guard
B.S., U. S. Coast Guard Academy, 1979

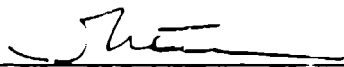
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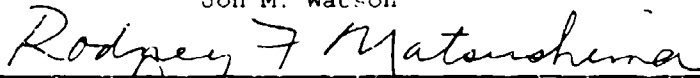
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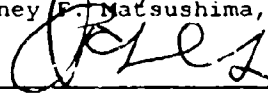
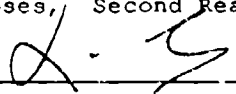


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ABSTRACT

OMB Circular A-76 (Contracting out Commercial Activities) is a controversial program which directs the Government to rely on the private sector for commercial services when evaluated cost is lower in the private sector. Many A-76 contracts experience cost increases after contract award. An earlier study of three USCG A-76 contracts showed that Department of Labor (DOL) wage determinations and added work caused cost increases, but the contracts were still cost effective. This thesis updated the earlier study of three activities and analyzed three additional USCG commercial activities to see if DOL wage determinations, added work, or additional factors caused cost increases, and what the Coast Guard contracting officer could do to control them. In addition, contract costs were compared with the Government's Most Efficient Organization (MEO) for each activity to see if Government savings were still being realized.

There are problems in the implementation of A-76 that may be associated with the perceptions of its effectiveness. To gauge USCG perceptions of the effectiveness of A-76, interviews were conducted with USCG leaders from units with "contracted-out" commercial activities. These were compared with interviews conducted with leaders from units that had the functions remaining in-house.

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I. INTRODUCTION

A. GENERAL BACKGROUND

The Office of Management and Budget's (OMB) Circular A-76 is a controversial program which directs the Government to rely on the private sector for "Commercial" services when evaluated cost is lower in the private sector. The A-76 process is complex and requires:

- Identification of a Government agency's "Commercial Activities" (with some exceptions given in the policy) that could be contracted out;
- A usually lengthy study of the activity to determine the Most Efficient Organization (MEO) for that activity as run by the Government agency;
- A competition between the Government agency's (MEO) and responsible private firms;
- A second round review five years after the original study is completed for all Commercial Activities retained by the Government agency.

There are many problems associated with the implementation of OMB Circular A-76, they include:

- The perception that A-76's purpose is to cut personnel and jobs rather than to have an efficient organization resulting in cost savings to the Government [53:p.5].
- Lengthy studies that are many times inaccurate and a burden on the activity being studied [52:p.3].
- The need for a Contracting Officer's Technical Representative (COTR) who is normally in place for a short duration (2-3 years), and who receives limited training or experience in quality assurance [57].
- The fact that once an activity is contracted-out under A-76, it is extremely difficult to return the effort "in-house" to the Government [36:p.42].

Since implementation of OMB Circular A-76 by the U.S. Coast Guard, people have questioned whether this program has resulted in cost savings for the Government. It is perceived that once a Commercial Activity is contracted-out, contract costs continue to increase excessively and the command loses flexibility in use of those Government personnel displaced

by the contractor. This thesis will determine the cost effectiveness of some of these activities that have been contracted-out, and present the current perceptions of this program by experienced Coast Guard officers in the field.

B. STUDY OBJECTIVES/RESEARCH QUESTIONS

The primary objectives of this thesis are to:

- Study USCG Commercial Activities (CA) that have been "contracted-out" and have experienced cost increases, and determine the causes of the cost increases.
- Determine if the studied contracted-out activities are performing at less cost than the Government's Most Efficient Organization (MEO).
- Gather perceptions of the USCG A-76 program by some USCG units with commercial activities contracted-out and those with CA's that remained "in-house".

The primary research questions are:

- What are the primary causes of contract cost increases for certain U.C. Coast Guard activities contracted-out under A-76 and how might these increases be controlled? (and)
- What is the general perception of A-76 by USCG units with contracted-out commercial activities and those with commercial activities remaining in-house?

Subsidiary research questions to support and supplement the primary research questions include:

- What is the contracting-out policy under Office of Management and Budget Circular A-76 and how is the program implemented in the Coast Guard?
- What factors contribute to cost increases following award of contracts solicited under A-76?
- What has been the relationship between the contractors and Coast Guard activities where A-76 contracts are being performed?
- What actions can be taken by the Coast Guard to reduce or eliminate contract cost increases following award?
- What is the U.S. Coast Guard perception of the effectiveness of the A-76 process and results?
- Do Commanding/Executive Officers believe in the A-76 process?

C. SCOPE OF STUDY

This thesis will follow-up on a study of cost increases of USCG contracted-out commercial activities completed in 1989 by LCDR Michael Omatsu, USCG. This study will determine if the factors LCDR Omatsu found that caused cost increases continue to increase contract costs, and if the activities he studied are still realizing a savings to the Government. In addition, this study will review other U.S. Coast Guard contracted-out CA's to determine causes for cost increase and if Government savings are still being realized. All of the U.S. Coast Guard Commands that have A-76 contracted-out activities reviewed in this study, and other units that retained some commercial activities in-house (operating under the MEO) were questioned to determine their perceptions of A-76 implementation.

D. METHODOLOGY

In conducting the research for this thesis, data were collected from numerous sources for different study areas. For background on OMB Circular A-76 and on Government and U.S. Coast Guard implementation of the Circular, a custom bibliography was requested from the Defense Logistics Studies Information Exchange (DLSIE) in Fort Lee, VA. Facilities at the Dudley Knox Library at the Naval Postgraduate School in Monterey, CA were also used, as well as a review of articles and Government documents held in faculty files. Telephone interviews with Coast Guard Headquarters staff in Washington, DC, and Contract management personnel at the Maintenance & Logistics Command, Pacific (MLCPAC) in Alameda, CA were also conducted in this area of research.

In studying the contracted-out Commercial Activities and determining cost increases and reviewing administration of the contracts, LCDR Omatsu's thesis on three contracted-out activities was reviewed. USCG Contract records on activities studied by LCDR Omatsu were reviewed as well as three additional Pacific Area contracts contracted-out under A-76. Two research trips were conducted to MLCPAC in Alameda, CA to view the

contract records, conduct interviews, and discuss the administration of the contracts with each contract's Contract Specialist. Extensive telephone interviews were also conducted with Coast Guard Commands that have the contracted-out activities reviewed in this study. These interviews were held with Commanding Officers, Executive Officers, Contracting Officer's Technical Representatives (COTR), the Contractor's Project Manager on-site, Contractors, and Coast Guard Headquarters staff in Washington, DC.

In gathering information on USCG perceptions related to the implementation of OMB Circular A-76, telephone interviews were conducted with Commanding Officers and/or Executive Officers of the six USCG commands that had A-76 contracts, and two USCG Commands that didn't (commercial activities that won with MEO).

E. THESIS ORGANIZATION

The thesis is divided into five chapters. Chapter I is a background on the evolution and implementation of OMB Circular A-76, questions to be answered in this thesis, and the methodology used. Chapter II is the background and problems encountered with the Coast Guard's implementation of A-76 and a summary of the results from the past study of three CA's by LCDR Omatsu.

Chapter III is an updated study on the three Commercial Activities (CA) studied by LCDR Omatsu, and a study of three additional CA's. The last two sections of this chapter discuss the reasons for the cost increases and compare the overall cost of performance with the MEO.

Chapter IV is a grouping of the various perceptions on implementation of the USCG A-76 program by Commanding Officers and/or Executive Officers of USCG Commands that have contracted-out Commercial Activities, and some commands operating with the MEO.

Chapter V contains the conclusions of this study, recommendations, answers to thesis questions, and recommendations for further research.

II. BACKGROUND

A. OMB CIRCULAR A-76

The Office of Management and Budget's (OMB) Circular A-76 describes a controversial program that is a part of the U.S. Government's emphasis to rely on the commercial sector for goods and services. The U.S. Government has long promoted that a Government should not be in competition with the private sector, however, the policy for the forerunner of A-76 was not formalized until the mid-1950's.

1. What is A-76?

In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of the national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs. [34:p.1]

This is the background statement of OMB Circular A-76 "Performance of Commercial Activities." Its main purpose is to achieve efficiencies in Government by encouraging competition between the Federal work force and the private sector for providing commercial services needed by Government agencies. [54:p.1]

In 1955, the formal introduction and framework for the present A-76 policy surfaced with OMB's predecessor, The Bureau of the Budget issuing Bulletin 55-4. This Bulletin's policy was for Government agencies to rely solely on commercial sources of supply with the costs of Government-run operations a factor only in cases where the agency determined that the product or service couldn't be purchased competitively at a reasonable price. This policy stated in effect that the Government was not to start-up or conduct an activity that produced a good or provided a service to the Government if it could be procured from the commercial sector [52:p.10]. Additional Bulletins were issued in 1957 and 1960.

The original OMB circular A-76 was issued in 1966. The Circular was revised in 1967 with a major policy change to use competition between Government-run commercial activities and the private sector, where the costs and Government savings were to be factored into the decision to keep the function with the Government (in-house) or contract-out to the private sector. This policy modified the belief that the Government should not compete with the private sector, however the 1967 revision did not provide detailed guidance on how agencies were to compare cost with the private sector [52:p.10].

It was not until the 1979 revision to the Circular that guidance was provided on how to maintain consistency in cost comparisons. This revision also provided the Government with a new management concept of defining needs for a commercial activity by measurable work standards, and not on "how" the activity was done [52:p.11].

The latest complete revision to A-76 was issued on August 4, 1983, which required management efficiency studies for all Government commercial activities. This revision also contained a supplement which provided standardized procedures to assist in implementing A-76 [35]. The current A-76 policy statement of the U.S. Government is [34:p.1-2]:

- To achieve economy and enhance productivity. Whenever an in-house function can be performed by the commercial sector, a comparison of the cost of contracting and the cost of in-house operation of the function will be made to determine who will do the work.
- Retain Governmental functions in-house. Certain functions are inherently Governmental, not in competition with the commercial sector, and in the public interest, are required to be Government-run.
- Rely on the Commercial Sector. The Government is to rely on commercially available sources to provide commercial products and services. The Government will not start any commercial activity if the product or service can be provided more economically from a commercial source.

"Commercial activities" are various services as defined by A-76. These functions include but are not limited to [34:p.7-10]:

Audiovisual Products & Services
Food Services
Industrial Shops & Services
Maintenance, Overhaul, Repair
& Testing
Printing & Reproduction
Security
Transportation
Manufacturing, Fabrication,
Processing, Testing, & Packaging

ADP Services
Health Services
Management Support
Office & Admin
Laundry
Real Property
Studies
Systems Engineering

Since the 1983 revision of A-76, OMB has issued "transmittal notices" to provide changes in cost calculations. The latest Governmental Directive of significance affecting the A-76 program is Executive Order 12615 which was issued on November 19, 1987. This Order required Agencies to conduct annual studies of not less than 3 percent of their civilian work force until all identified potential commercial activities have been studied [59].

Since its implementation, there have been many attempts in the Congress to put A-76 policy into law, with the General Accounting Office strongly supporting legislation in 1978, 1981, and 1986, but none have been successful [53:p.8].

2. How is A-76 implemented?

When OMB began implementing A-76, Government agencies were required to identify "commercial activities" that could be done by the private sector as defined by the policy. Activities that remained in-house were required to meet one of the following criteria [34:p.4-5]:

- No satisfactory commercial source available.
- National defense reasons The Secretary of Defense must authorize this exemption.
- Patient care. Where Government operated hospitals are used in the best interest of patient care. A reason for this could be from the complexities and difficulties in conducting an accurate cost comparison of military and civilian care. Also this exemption could be to maintain a military medical capability.
- Government performance costs are lower than a qualified commercial source.

Government agencies were required to develop an inventory of commercial activities which were reviewed by the agency for A-76 consideration and then reviewed by OMB for approval. The activities identified for A-76 "review" were for some agencies placed on an OMB approved timetable for completion. The agency was then to commence reviews for each activity and also provide an annual report to OMB on A-76 progress.

Each review is an in-depth management study of the commercial activity as it is conducted in-house. The first phase of the review is preparation of a Performance Work Statement (PWS) for the function. The PWS is a Statement of Work (SOW) which contains the specifications that basically described what the function is and what it takes to do it. A Quality Assurance (QA) plan for a possible service contract is also developed within the PWS. The QA plan is the action to be taken by the Government to ensure the goods and services received from the activity meet the requirement of the PWS.

From the PWS, and in some cases while it is being developed, the best organizational structure and operating procedure for the function is determined. This structure is known as the Most Efficient Organization (MEO). The MEO is intended to encourage efficiency by "cutting the fat" in the Government-run commercial activity by reducing costs and reduction of personnel as necessary. The cost of operating the function in-house under the MEO is then determined.

The PWS is then used as part of a solicitation by the agency to offer the activity in competition with the private sector using the Government cost of the MEO. Most solicitations for these potential contracts use the Invitation for Bid (IFB/sealed bid) method as many service contracts can be competed primarily on price. However, some contracts may be negotiated depending on the PWS, or when using a "small and disadvantaged" firm under the Small Business Administrations Section 8A set-aside program. Bids or proposals will be on at least a three year basis for multi-year funding.

or cover two fiscal years after the initial year for single year funding. In using the sealed bid process, the confidentiality of all cost data is maintained to ensure that Government and contract cost remain independent, where the contracting officer does not know the in-house cost estimate until bid opening [35:p.IV-3]. At the bid opening, the offeror and MEO costs are compared. If the total cost of contracting out is less than the MEO's cost by more than 10 percent of the MEO's personnel related costs, and the offeror is determined to be responsible, then the commercial activity is contracted-out. However, if the offeror's cost is within 10 percent of the MEO cost or greater than the MEO, the activity remains in-house [35:p.IV-41].

In functions having less than 10 full-time equivalents (FTE) (one FTE is normally comparable to one employee) as determined in the management study, a cost comparison is not required as long as the price is "fair & reasonable". A "fair & reasonable" determination is based on having a number of firms in that service industry resulting in competition which would induce fair & reasonable prices [35:p.I-12].

Under A-76, the commercial activity remaining in-house is required to have a second review five years after the original study is completed. The intended result from both in-house or contracting-out determinations is a cost saving by the Government not only in money, but by hopefully having a more efficient activity for in-house determinations. The entire review process has proven to be very long, and an effective study requires advanced planning and preparation, skill, and a comprehensive analysis of the function.

Once a commercial activity is contracted-out, it is very difficult for the Government to return the activity back in-house. For the Government to take back the function, the MEO developed would have to better a private sector offeror by a ten percent cost increment (twenty percent lower than the originally competed MEO cost) plus twenty-five percent of the contractor's capital assets cost. Also the Government agency's

Secretary must approve the return to in-house. There are two reasons to recompute or have another cost comparison study. They are: (1) in response to unsatisfactory service, or (2) if the contract costs become unreasonable.

B. THE COAST GUARD AND A-76

The Coast Guard's first response to A-76 was to take little to no action. Following the 1979 revision of A-76, the Coast Guard estimated that it would need 60 full-time employees to carry out the activity review requirements of A-76. At the time, the Coast Guard's official position was that no billets were available in the service for reprogramming to perform this function, and when requested, OMB would not authorize additional billets. While the other military Services in DOD began reviews and started contracting-out their commercial activities, the Coast Guard had "dodged the A-76 bullet" for the time being [1].

After the 1983 revision of A-76, OMB authorized the Coast Guard 20 billets (15 civilian and 5 military) to implement the program, and on February 24, 1984, a Department of Transportation (DOT) order directed the Coast Guard to comply with A-76. The new Coast Guard billets were placed in a new staff element, COMDT(G-A76) at USCG Headquarters in Washington, DC. G-A76 formed an "A-76 Task force" and began planning to review all commercial activities in the Coast Guard [1].

In 1984, a major incentive for the Coast Guard to quickly implement A-76 came about after OMB had examined the inventory of Coast Guard's civilian billets maintained by the Office of Personnel Management, and concluded that 4200 of these billets could possibly be deleted starting with first cuts in 1985. G-A76 was now required to speed-up their implementation of A-76 to minimize the effects of the billet cuts [36:p.9]. For Coast Guard civilian personnel assigned to Coast Guard Headquarters and not familiar with the overall effectiveness principle of

A-76, this researcher personally observed views that A-76 suddenly meant the threat of "reduction in force" (RIF).

G-A76's first major action in A-76 implementation came with sending a message directive to all Coast Guard units requiring a listing of all their commercial activities in order to compile the inventory for consideration of A-76 review. This instruction was not as specific as it should have been, as responses were many and varied and came back with statements and questions about the potential impact of A-76, but G-A76 took what came in and began compiling the Coast Guard's A-76 review inventory [1].

In the first two years of the reviews (1985-86) all early management studies (PWS and MEO costing) and solicitations in the Commerce Business Daily (CBD) or through SBA were coordinated by G-A76 because this was a new program to the Coast Guard, and all the A-76 program billets were in Washington, DC.

By 1987, a number of major A-76 reviews had been completed in different service areas. With established contracts and example PWS's as guides, many reviews of commercial activities were being conducted by the units having the commercial activity being studied with oversight by G-A76 [1].

Initially many of the reviewed functions that were contracted-out were reserved for small disadvantage businesses (Section 8(a) of the Small Business Act) with the SBA as the prime contractor. Small business quotas for annual Coast Guard contract dollars are set by COMDT(G-CPM) and have varied between 8-10 percent for all contracts. The option to initially use 8(a) firms for A-76 commercial activities made contracting-out easier for the Coast Guard because a cost comparison was not required, and it was also helping the Coast Guard achieve it's overall annual SBA monitored 8(a) quotas. In some commercial activities, such as food service, using small businesses in competition may soon be the only option. On October 31, 1991, a contract was awarded for an A-76 recompeted contract for food

service in Kodiak, Alaska. There, 11 small businesses submitted bids for the contract [9]. Some large contractors are also moving away from A-76 food service contracts because they are losing money due to increasing labor costs through union led wage increases [41].

Most of the Coast Guard's A-76 contracted-out commercial activities are competed using the sealed bid method because many of the service contracts are based on price alone. However, some solicitations are Requests for Proposals (RFP) and negotiated depending on the type of work required, the PWS, and if they are set-aside for small business.

After 1987, the initial A-76 reviews and solicitations were completed by not only G-A76, but by the administrative commander of the field unit and the field unit having the commercial activity, with follow-on solicitations and contract administration conducted by the Contract Branches of the Maintenance & Logistics Command (MLC) in New York for Atlantic Area units and Alameda for Pacific Area [1].

In 1988, G-A76 was reduced to 12 persons and renamed the Commercial Activities Branch (COMDT(G-CPE-4)). In 1991, with a reduction in A-76 reviews, this branch was renamed the Resources Assessment Branch (COMDT(G-CPP-2)). Final authority and oversight of the Coast Guard's A-76 program remains with this branch. Since the initial activity inventory message directive, G-A76, G-CPE-4, and now G-CPP-2 have not issued any Coast Guard Directives concerning the implementation of A-76, but maintain that they have closely monitored all reviews [1,6].

Once the Coast Guard contracts-out a commercial activity, it is highly likely that it will remain contracted-out. While a few contracted-out activities have resulted in another cost comparison study, only two Coast Guard contracted-out activities have been returned to in-house [6].

The first commercial activity that returned in-house was at the Support Center and Air Station at Elizabeth City, NC, for Aircraft Crash-Rescue services. The contractor went bankrupt and defaulted on the contract. The Air Station had no Crash-Rescue service available for

approximately 24 hours while the Air Station organized adequately trained personnel to take the contractor's place. Without this required and vital service, Search and Rescue aircraft were grounded during that period. Through this incident, it was decided at the Coast Guard Headquarters and DOT level that this activity was an essential service and for safety reasons was returned in-house. The billets originally deleted by this activity when contracted out were returned to the Air Station [6].

The other commercial activity that returned in-house was for Food Service at the Training Center, Petaluma, CA. The contractor was operating the main base dining facility and losing money through declining customer levels. The contractor had competition at the Training Center as many of their customers took the option of dining at the Training Center's Subsistence Specialist (SS) School Dining Facility. This facility not only had beginning, but advanced SS students preparing meals, and these meals were of a much higher quality than the contractor could provide. There was a mutual agreement between the contractor and the Coast Guard that the Coast Guard would not exercise another option year in the contract. The contracted-out activity was then combined with the SS school dining facility for increased SS training space. In this case, no additional billets were added to those that were previously deleted from the base galley as SS's in training were available from the school [28].

Since the Coast Guard began its A-76 reviews in 1985 and through August 1991, 89 reviews have been completed with just under half (44) being contracted-out. The combination of contracting-out and in-house with MEO has resulted in an estimated average annual cost savings of \$28,074,000. These reviews also resulted in a reduction of 813 military and 324 civilian billets out of 1596 military and 952 civilian billets reviewed (Table I) [45]. Of the 44 commercial activities contracted-out, 16 were contracted out by open competition and 28 were reserved for 8(a) set-aside and more recently small business competition.

TABLE Y

USCG COMMERCIAL ACTIVITY A-76 REVIEWS COMPLETED 1985-1991*

<u>FY</u>	<u>Completed Reviews</u>	<u>Contracted-out</u>	<u>In-house</u>	<u>Billets Military</u>	<u>Reduced Civilian</u>	<u>Average Annual Cost Savings</u>
85	2	1	1	0	7	0
86	38	27	11	335	57	9,309,000
87	18	8	10	93	81	3,335,000
88	13	5	8	235	158	10,440,000
89	6	0	6	57	3	1,923,000
90	8	3	5	59	31	2,014,000
91*	4	0	4	34	(6)	1,053,000
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TOTAL	89	44	45	813	324	\$28,074,000

* - Through August 1991

Source: USCG A-76 Report to OMB through 2nd Quarter FY 1990 - May 1990. Updated through August 1991 by COMDT(G-CFP-2).

The Coast Guard's A-76 savings are small overall, but comparable on a per review savings when compared to DOD. From October 1978 to December 1986, DOD conducted 1,661 completed reviews resulting in an estimated annual cost savings of \$612,557,000, with 801 (48 percent) activities remaining in-house [54:p.15]. While the Coast Guard's total savings was 4.3 percent of DOD's, the Coast Guard averaged \$307,000 in savings per review where DOD's average was \$369,000 per review [52].

C. PROBLEMS WITH A-76

A number of problems have been encountered by both the Department of Defense (DOD) and Coast Guard in implementing A-76, with some of these problems continuing today. The DOD has been active in the A-76 review process much longer than the Coast Guard and many GAO studies have been made documenting the effectiveness of DOD A-76 activities. The Coast Guard's A-76 program has not been the subject of a GAO audit, however, the

Department of Transportation Inspector General (DOT-IG) has reviewed the Coast Guard A-76 program noting only minor discrepancies [1]. Also, a Coast Guard in-house study on A-76 effectiveness was conducted in 1989 which noted no major discrepancies in administration of the program [6].

The GAO believes that the A-76 program is a good way to encourage effective and efficient Government operation, but the program has not gained Government-wide acceptance or met its objectives [54:p.1]. The GAO through its' many studies of A-76 have identified a number of problem areas with the program.

1. Management Study Review and Performance Work Statement

The overall management study process is very time consuming and burdensome. The time requirements for completing the study were also unrealistic. The GAO found that on average it took DOD two years to complete each MEO cost study, with some taking up to eight years. DOD progress on current studies show 44% of the present studies ongoing for 6 or more years [52:p.4]. The DOT-IG review of Coast Guard A-76 activity found a shorter average review completion time where out of 100 reviews, only 14 took greater than two years [1]. This could probably be attributed to the difference in magnitude of DOD reviewed activities over Coast Guard.

The GAO found that contributing to the problem in conducting the studies is preparation of the management study, PWS and MEO. At the unit with the commercial activity reviewed, the study task is given to a person at the unit as a collateral duty. The OMB Circular A-76 supplement discusses the management study as:

...a "team effort" using persons with expertise in management analysis, staffing, position classification, work measurement, value engineering, industrial engineering, cost analysis, contracting, and technical aspects of the functional effort under study.
[35:p.III-2]

Usually the person assigned this task does not have the skill or experience to properly prepare the study (and also he/she may never prepare one again). This lack of skill has added time to the completion of the study, PWS and also the cost determination of the MEO [54:p.3].

The lack of additional skilled personnel to conduct studies was one of the Coast Guard's excuses for not implementing A-76. OMB granted the Coast Guard some of its billets requested for A-76 in 1984 and a new Coast Guard Headquarters staff element COMDT(G-A76) was formed to do the overall review and all the studies. G-A76 also had most of the personnel resources mentioned above to conduct the studies. However, G-A76 shifted the burden of conducting the studies to field units, where the review is now conducted as a collateral duty by a person without the proper skills for the job. Presently, the reviewer is only armed with the following: (1) Supplements to OMB Circular A-76 (1980 and 1983) on how to prepare management studies; (2) an example of a completed management study for guidance in completing the review; and (3) COMDT(G-CPP-2) in Washington, DC is available for questions. This can add to completion time of the study, and also result in an inaccurate PWS.

For past reviews in the field, the Coast Guard-imposed time deadlines have pushed the Coast Guard unit for results. This has caused the reviewer at the unit to rush and ultimately produce an incomplete review. A past Coast Guard Subsistence Specialist program manager stated that some initial food service PWS's were vague, with poor quality assurance plans and discrepancies in some of these studies resulting in poor initial contracts. However, the learning curve has improved as a result of earlier errors [41]. MLC PAC Contract Specialists also say that while the PWS's are sometimes incomplete, they are usable with additional inquiry on their part [14].

The distance between the review sites and study team can be a problem depending on who conducts the review. The G-A76 review staff in Washington, DC had all Headquarter's staff Program Managers available for

answers or consultation on questions outside the G-A76 staff's area of expertise, but they were still far away from some of their review sites, and not being close to the site may also have contributed to incomplete PWS's. There also seems to have been limited coordination between Headquarters and the Contract Administrators at MLCAPAC in Alameda, CA for some of the solicitations for Pacific Area contracts placed by Headquarters.

2. Work Force Perception

The work force perception of A-76 may still be a problem [52]. Many persons from high levels down to the unit Commanding Officer, may see the A-76 process as just "contracting-out" one of their functions with a resulting loss of military or civilian billets. The Commanding Officer loses flexibility in the use of his personnel as the new contractor is not an employee, and there can be no employer-employee relationship in this contract. The contractor may be seen as a short-term tenant providing a service who can only be communicated with through the Coast Guard's contracting officer many miles away. Persons with this perception aren't able to accept the effectiveness concept of the MEO, and may also see the lost billets as a reduction of personnel. The Command reviewing the function may also take on the review as a competition to be won. The reviewer may be encouraged to undercut the MEO to such a level where if the Government "wins", the resulting pared-down organization may be unable to properly carry out its job, thereby hurting the Command and the Government.

3. Contracting Officer's Technical Representative (COTR)

The Contracting Officer's Technical Representative (COTR) and Quality Assurance Evaluators (QAE) (that may be assigned to the COTR) for each service contract, are a vital link to the Coast Guard's contracting officer in ensuring requirements of the contract are met, but that link

has the potential to be weak. The military COTR may only be assigned as the COTR for two to three years and may lack the required experience upon arrival to the job. The Coast Guard provides training to some of their COTR's through one to five day courses conducted by the Office of Personnel Management, General Services Administration, or a private contractor, but the present courses are not a substitute for experience [57]. The COTR assigned may not give his duty the attention it requires or have the skill to perform adequately. In a past Coast Guard food service contract, the contractor was giving away "free" breakfasts, by paying the customer's meal price out of his pocket, and then collecting the difference between the customer's meal price and the contract meal cost [41]. A well-prepared COTR would have caught this action or prevented it from happening.

4. Cost Increases and Cost Savings Determinations

Many cost increases have occurred in contracted-out activities. GAO audits of DOD activities show that poorly prepared PWS's with some tasks omitted have caused items to be added-on to the contract, resulting in increased costs. A 1985 study by GAO reviewing 20 DOD functions contracted-out between 1978 and 1981 found that all but one of the functions had cost increases, but savings were still realized on 17 of the functions [49:p.1].

The cost savings reported after an A-76 review may not be accurate or complete. A GAO study released in March 1990 stated that OMB's figures of DOD cost savings did not accurately reflect the extent to which economy in Government operations were being achieved. The report listed the following problems with DOD procedures [51:p.2-3]:

- DOD estimates expected cost savings from individual studies on the basis of standardized assumptions, not on the best available cost data.
- DOD does not routinely collect and analyze cost information to monitor actual operations after a cost study has been made.

- The computerized data base that DOD uses to accumulate information on expected cost savings contains inaccurate and incomplete information.
- DOD's automated system miscalculates total annual expected cost savings.
- DOD's system does not contain reliable information on the cost of implementing DOD's A-76 program, including the cost of doing the studies.

Based on these problems, GAO stated that neither DOD nor OMB have reliable information to assess the true savings that are realized [Ref 51:p. 3].

The Coast Guard has some of the same problems as DOD in identifying A-76 cost savings. Coast Guard cost savings are given as an average annual cost, which is computed as a difference between the estimate of what it cost the Coast Guard to operate the activity before taking personnel reductions, and the cost of the MEO or average annual cost of the initial contract. Cost increases during the life of the contract are not used in calculating cost savings. The Coast Guard does not routinely track A-76 contract cost increases unless there may be a major problem in performance, and the activity is considered for review to return in-house. Also the Coast Guard does not take into account the cost of doing the study, the PWS, or MEO [6]. For these reasons similar to DOD's, the Coast Guard also may be reporting inaccurate savings information.

5. Work Force Morale and Productivity

A-76 has been shown to have a bad affect on morale and productivity. GAO studies have shown that employee concern begins as soon as an A-76 study is announced. Some employees begin looking for other jobs, reducing their productivity and resulting in loss of good employees. As the attrition rate increases, managers are required to do more with less workers, in addition to working on the A-76 study [54:p.5].

A-76 provides a safety net for the affected civilian employee where the agency is required to exert "maximum effort" to find available positions for adversely affected employees including [35:p.I-18-19]:

- Giving priority for available position in the agency.

- Have a reemployment priority list and positive placement.
- Pay reasonable costs for training and relocation as they relate directly with placement.
- Coordinate with Office of Personnel Management to ensure employees have access to Government-wide placement programs and Department of Labor for private sector jobs.
- Advise employees that they have right of first refusal for employment on the contract for positions that they are qualified.

A GAO study of DOD activities in 1985 showed that the majority (74%) of civilian federal workers whose jobs were contracted-out obtained other federal employment (with a majority of those persons placed in lower grades), 7% went to work for the contractor, 5% were involuntarily separated, and most of those remaining employees resigned or retired [50:p.6]. While the Coast Guard Civilian Policy and Programs Division is concerned over A-76 affects on Coast Guard civilians, they do not presently compile information on how Coast Guard civilian employees are affected after a function is contracted-out [42].

6. Affect on Coast Guard Enlisted Ratings

A-76 implementation has had an adverse affect on the billet structure for some Coast Guard enlisted ratings. Civilian personnel displaced by a contract may lose their jobs, but military personnel in a deleted billet usually remain in the service and are transferred into excess or other positions. The Coast Guard Subsistence Specialist (SS) and to a lesser degree, Electronics Technician (ET) enlisted ratings have been severely affected in some areas as a result of contracting-out.

Of Coast Guard Commercial activities contracted-out, 33 percent of the military billets reduced were SS related billets [45]. As more SS billets are deleted, the reassignment to an excess billet is more likely to be a ship. Contracting-out food service functions have caused shore assignments for the SS rate to greatly decrease in some areas. In the Pacific Area, 20 shore units have been contracted-out, raising that region's SS sea/shore billet rotation ratio to seven-to-one. In the

concentrated geographic area of Seattle, WA the sea/shore rotation is now 20/1, which has reduced the desire for SS's to remain in this area in subsequent tours, and will result in increased Permanent Change of Station (PCS) costs [41].

Coast Guard A-76 food service contracts have also adversely affected the SS billet structure. There is a shortage of SS personnel at the E-5 level and advancement has slowed [41]. The current authorized billet structure and a time in service at time of advancement comparison is shown in Table II [58].

TABLE II
USCG SUBSISTENCE SPECIALIST (SS) BILLET STRUCTURE - 1990

Rate	Authorized	Actual	1984 TIS*	1990 TIS*
E-4	396	441	2.40	2.85
E-5	364	278	4.64	6.50
E-6	278	271	9.63	9.66
E-7	142	140	15.00	15.60
E-8	28	27	19.66	20.90
E-9	9	9	22.71	20.50

* - Average time in service at advancement in years
[Ref 17]

The Subsistence Specialist is a major contributor to high morale on many Coast Guard Cutters. However, denying shore billet opportunities as a result of A-76 may have an adverse long term impact on retention of many good SS's. Advanced SS "C" School students are given a survey during each entering class and one question asks "What would they do to change the rate?" The number one response is to reduce the sea-shore rotation [37]. Enrollment at the Coast Guard's SS "A" School for new cooks is down and this school is now one of few offered to Coast Guard recruits immediately after basic training [41]. The reduction of sea-shore rotation cannot be overcome by cash incentives. The SS Selected Reenlistment Bonus (SRB) has

a higher bonus base than all but two other Coast Guard ratings, and since March 1991, a cash bonus of \$1,000 has been offered to SS "A" School graduates and SS "Strikers" [48]. Despite these incentives, SS recruitment and retention doesn't meet current manning requirements and the SS rating is the 20th lowest of 23 Coast Guard ratings for first term reenlistments [46:p.9].

A number of Coast Guard shore electronics maintenance functions have been contracted-out on a smaller scale than the food service contracts that have affected SS's, but shore billet opportunities for ET's have also been reduced as a result of A-76 actions [58].

7. Some Solutions to A-76 Problems

With the SS rate problems brought about in part by A-76, the SS Program Manager at COMDT(G-PS-2) has developed a USCG Subsistence Program Action Plan for Headquarters level decision makers. The point paper presents the objectives of the SS program, addresses SS related problems, and provides plans to strengthen the SS rate by modifying SS opportunities ashore, raising the low image of the SS, and improving the SS career path and training program [39].

In a move to improve A-76 future actions, COMDT(G-CPP-2) is coordinating its efforts more closely with the Office of Personnel, Work Force Planning Division (COMDT(G-PWP)) in reviewing the effects of future potential billet deletions. Also, there must now be a multi-mission impact statement as part of the management study. This statement's purpose is to assess the impact on the employees affected by the study [6].

The pace of Coast Guard A-76 reviews has slowed in the past few years. There are presently five ongoing commercial activity reviews with 41 remaining from the original inventory to be conducted. The last review of the Coast Guard A-76 "cycle" is scheduled for MEO or contract implementation in the second quarter of Fiscal Year 1996. Based on the

existing inventory, 2,245 military and 1,448 civilian positions will have been reviewed when the "first round" is over [45].

With the Coast Guard's recent commitment to Total Quality Management (TQM), and a reduction in the amount of A-76 reviews to be conducted, COMDT(G-CFP-2) has been tasked to look at various Coast Guard in-house operations (inside and outside the sphere of A-76) to review and seek improvement in processes to improve efficiency. Also, the OMB has reduced the Coast Guard's incentive to cut billets in its earlier forced billet reductions. The OMB restored 425 billets to the Coast Guard for 1991 and plans to restore 162 billets in 1992 [6]. There are still almost 550 Coast Guard billets to cut in order to meet OMB's original requirements, but these reductions have been allowed to take place over the next eight fiscal years. There is also a small possibility that the OMB may restore additional billets to the Coast Guard in future years depending on the Coast Guard's growth [6].

D. PAST STUDY OF COST INCREASES IN THREE USCG COMMERCIAL ACTIVITIES

In 1989, LCDR Michael OMATSU, USCG conducted a study of the cause of cost increases for three different types of A-76 contracted-out commercial activities in the Coast Guard as his thesis while attending the Naval Postgraduate School in Monterey, CA. The commercial activities studied had varying degrees of complexity and were for: Maintenance of Government-owned housing managed by USCG Base Honolulu, HI; full food service for USCG Group San Diego, CA; and Security guard service for USCG Support Center Seattle, WA.

The thesis discussed contract administration problems experience in each activity by the Government and the contractor. It also provided the contract modification history of each contract and identified cost increases. The conclusions of the study stated that cost increases experienced in each of the contracts were caused primarily by Department of Labor wage determination adjustment increases, and in only one

situation a cost increase was caused by added work requirements [36:p.37].

The summary of commercial activity cost increases found in this thesis are as follows:

Base Honolulu Housing Maintenance - \$49,021 (over 3 years)

Group San Diego Food Service - \$18,099 (over 4 years)

Support Center Seattle Guard Service - \$35,458 (over 3 years)

In the three commercial activities studied, the researcher found that there was still an annual savings realized over the MEO despite the cost increases. With DOL Wage determinations the prime reason for cost increases, the thesis stated that the Federal wage increases tended to preserve the cost advantage of the contractor.

How have these contracts evolved since this study, and are they still cost effective? The first section of the following chapter will provide an update to LCDR Omatsu's thesis on the cause of cost increases, with the second section presenting data on three additional Coast Guard commercial activities.

III. STUDY OF COST INCREASES OF COMMERCIAL ACTIVITIES

A. UPDATE ON COST INCREASES FOR COMMERCIAL ACTIVITIES OF PAST STUDY

In updating LCDR Omatsu's study of cost increases for three U.S. Coast Guard commercial activities, the contract files of the activities located at MLC PAC Alameda, CA were reviewed to extract modifications and cost trends. MLC PAC Contract Specialists, contractors, unit Commanding Officers, and COTR's were interviewed to discuss contract performance, determine the reasons for cost increases (if they still occurred), and to determine if the cost increases could be avoided. The updated study period for these activities covers the time from October 1988 through September 1991.

1. Base Honolulu Housing Maintenance

This contract is for the maintenance of 292 Coast Guard owned family housing units on the island of Oahu, Hawaii which is in the Fourteenth Coast Guard District. An Invitation for Bid (IFB) for this contract was issued in July 1985 and the contract was awarded to DWS, Inc. of Scottsdale, AZ who was the lowest responsive and responsible bidder. The contract value was \$1,612,522 for the base and four option years and went into effect on February 1, 1986. This resulted in the reduction of 11 Government civilian and four military billets. During the contract period covered by the past study by LCDR Omatsu (December 1985 - March 1989), twelve contract modifications were issued. Since the last study through May 1991, twelve additional modifications have been incorporated into the contract and are detailed in Table III. Five of these contract modifications were required in the fall of 1989 and 1990 because of the limited Government funding available. Continuing resolutions were passed by Congress to keep the Government operating because they could not approve the Government's annual budget.

TABLE III
MODIFICATIONS TO CONTRACT DTCG34-85-B-00119
BASE HONOLULU HOUSING MAINTENANCE, HONOLULU, HI
14TH COAST GUARD DISTRICT

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
1-12	17DEC85 01OCT88		709,709	Contract Mods 1-12. Contract extended through 30SEP89 (3rd Option Year).
13	01APR89			Authorization list of persons to place orders against contract.
14	01OCT89	15,724	725,433	Contract extended 01OCT89 - 30SEP90 (4th Option Year). Limited Government funds available 01-31OCT89 (Continuing Resolution).
15	01NOV89	15,724	741,157	Funds available 01-30NOV89.
16	22NOV89			Authorization list of persons to place orders against contract.
17	01DEC89	157,240	898,397	Funds available 01DEC89 - 30SEP90 (4th Option Year FY90 total - \$188,688).
18	28SEP90			Negotiated Contract extension 01OCT90 - 31DEC90. DOL Wage Determination 86-242 03/28/90 (Rev 9). Increase incorporated.
19	01OCT90	10,860	909,257	Limited Government funds available 01-09OCT90 (Continuing Resolution).
20	09OCT90	17,648	926,905	Funds available 10-24OCT90
21	22OCT90	4,072	930,977	Funds available 25-31OCT90
22	25OCT90	116,748	1,047,725	Contract extended 01NOV90 - 28FEB91.
23	27FEB91	89,598	1,137,323	Contract extended 01MAR91 - 31MAY91.
24	31MAY91	119,464	1,256,787	Contract extended 01JUN91 - 30SEP91 (Contract extension FY91 total - \$358,390).

Source: Contract file for Base Honolulu Housing Maintenance, Contract Number DTCG34-85-B-00119, located at Maintenance and Logistics Command, Pacific, Alameda, CA.

The contract moved into an extension period after the original base and four option year period ended September 30, 1990. The extension was

required when it was decided that the contract's scope was to be expanded to consolidate contracts covering services on other contracts. The new contract's additional services now include landscaping, janitorial, and pest control. Prior to the expiration of the initial contract, the first extension was negotiated and planned for three months, but due to excessive delays in the development of specifications, solicitation, and contract award, the contract was extended through September 30, 1991.

For the life of this contract, both the customers and contractor have generally been satisfied. However, the following problem areas were addressed by both parties, with the majority of these problems volunteered and noted by the Government's representatives:

- Some of the past contract specifications were too vague and open to interpretation. (Seen as a problem by both parties)
- The distance between MLCAPAC and Base Honolulu created a communications problem. The Contract specialist was sometimes slow to respond to inquiries about the contract from the COTR (attributed to MLCAPAC workload) [3].
- Base Honolulu personnel feel they have very little control in this contract. The present Housing Officer notes that the contractor has been "running the Coast Guard" where for example, Quality Assurance (QA) was not followed up by the COTR, and the COTR would take the word of contractor that work was completed [27].
- The new Housing Officer perceives that the COTR may be too close to the contractor outside the working environment to have a proper professional relationship. He cited the COTR's QA reliance on the contractor as an example [27].
- The Contractor doesn't have their own administrative support, and uses Coast Guard supplies for some administrative needs. No compensation given for its' use [27].
- The COTR has been on the job for six years and has received COTR training in three courses, but he believed the training was not totally adequate to cover real-life aspects of COTR duties [3].
- Past Housing Officers at Base Honolulu have had little experience, upon arrival, in contract administration and have relied solely on OJT. This lack of experience and the long distance to MLCAPAC may have resulted in minimal direction to the COTR on how to effectively manage the contract for the contracting officer. A past Housing Officer has directed the COTR to not make recommendations to the Contracting Officer in MLCAPAC concerning contract conflicts, when the COTR is supposed to be the eyes and ears of the Contracting Officer [3].

The Contract Specialist at MLCPAC Alameda perceives that there are no problems with the contractor or the COTR, and many of these previously listed minor and some potentially major problems at the unit level were not noticed by her. This could be because of her primary reliance on letter and telephone correspondence for communications with and feedback from the customer, COTR, and contractor [2].

The new expanded contract is pending award approval by the COMDT(G-CUS) (Chief of Staff review and approval is required for contracts greater than one million dollars) and is scheduled to go into effect on October 1, 1991. The new contract's base year value is \$874,688. The housing maintenance costs are provided as separate line items in the new contract, however, it may be difficult to track cost increases and measure cost effectiveness in the housing maintenance service area. The MLCPAC Contract Specialist for this contract anticipates that this may become a problem when the Coast Guard's labor intensive and complex quality assurance plan is implemented [43].

Cost increases in this contract came from two sources. The first source was the cost increases from Department of Labor (D O L) Wage Determinations from the first study period which carried over into the last two

TABLE IV

**COST INCREASES TO CONTRACT PRICE
BASE HONOLULU HOUSING MAINTENANCE
01OCT88-30SEP91**

Option Year 3: 01OCT88-30SEP89

Wage Increases: \$20,688

Option Year 4: 01OCT89-30SEP90

Wage Increases: \$20,688

Contract Extension: 01OCT90-30SEP91

Wage Increases: \$190,390

option years of the contract. The second source came from the end of the contract extension, which resulted in a significant cost increase. In option years three and four, the same Department of Labor (DOL) wage determination incorporated into option years one and two were used, with

no other wage increases taken. In the present extension period, a DOL wage determination was incorporated which almost doubled the cost of contract performance. In addition, the cost of the negotiated extension was increased to compensate the contractor for wage increases not taken (but available) in the last three option years. The new contract extension price was determined to be fair and reasonable by MLC PAC. Cost increases for this contract are summarized in Table IV.

Wage increases are the driving factor for increased costs in this contract. The only way to cut costs in this contract is to reduce the requirements. This is unlikely in the near future since housing maintenance needs have increased and the new consolidated contract has been established [2].

2. Group San Diego Food Service

This contract is for the operation of the dining facility at the U.S. Coast Guard Group in San Diego, CA. This dining facility's customers included not only Group personnel, but the personnel of the Air Station, Station (Small Boat) San Diego, Patrol Boats, and a Reserve Group unit (when on active duty). There have been two contracts awarded for this commercial activity since it was initially contracted-out.

The initial contract was awarded to Aleman Food Service of San Antonio, TX under the SBA 8(a) set-aside program. This first contract was effective on June 1, 1985 for a four month base year and four option years at an estimated contract price of \$1,378,200 (\$106,200 Base year plus \$318,060 per option year). The contractor displaced seven military billets when this contract became effective. The Government and contractor were both very satisfied with the performance of this contract with no deductions taken for unsatisfactory performance. In the first contract, wage increases were incorporated during three of the contract option years totaling \$18,089, however at the end of each fiscal year, a deobligation of funds was taken which totaled \$76,906. This reduction

made the overall price of the first contract less than the original estimate.

A deobligation of funds for a food service contract can counterbalance any wage increases. A deobligation occurs when the actual costs of performance in a contract are below the original estimated cost. Excess obligated funds from this contract account are then transferred to cover other accounts that may be experiencing cost overruns, for future unplanned contingency obligations, or for expenditures on material not funded in the original budget [26]. In this case, the actual meals sold were below the original estimate of meals to be sold (based on past history). In food service contracts, each type of meal is priced based on a range of the number of meals sold each month, with a higher price per meal for a low number and a lower price per meal for a high number of meals sold. This is done to cover contractor costs and also to accommodate the fixed price contract. For example, if the number of meals sold during contract performance increases and moves to a higher range, the meal prices are reduced. In this contract, the number of meals sold have been decreasing, therefore meal prices increased. However, the number of meals sold in this contract have decreased to a point where they are below the lowest amount/highest price range, and the amount entitled to the contractor is less than originally obligated at the beginning of the option year (based on confirmation by the COTR through monthly invoices). When this occurs, a funds deobligation takes place.

Aleman Food Services graduated from the SBA 8(a) program at the end of their final option year in 1989, and another 8(a) contractor was recommended by the SBA for this contract. The present contract was awarded to Ballantine's South Bay Caterer of San Diego, and became effective on October 1, 1989. This contract was for \$385,500 in the base year with four option years totaling \$1,927,500. As of September 1991, there have been 15 modifications to this contract which are outlined in

Table V. Six of these modifications were required as a result of Congressional continuing resolutions for temporary Government funding.

<p style="text-align: center;">TABLE V</p> <p style="text-align: center;">MODIFICATIONS TO CONTRACT DTCG89-90-C-70013 USCG GROUP SAN DIEGO FOOD SERVICE, SAN DIEGO, CA 11TH COAST GUARD DISTRICT</p>
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MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
1	01OCT89	32,125	32,125	Limited Government funds available 01-31OCT89 (Continuing Resolution). (New contract begins, Base Year - \$385,000)
2	01NOV89	32,125	64,250	Funds available 01-30NOV89
3	01DEC89	312,250	385,500	Funds available 01DEC89 - 30SEP90
4	23MAY90			PWS Change - Meal time change
5				PWS Change - Meal time change
6	15AUG90	(71,550)	313,950	Deobligation of funds
7	30AUG90			Contract extended 01OCT89-30SEP90. (Base Year ends - FY90 total - \$313,950) DOL Wage Determination 88-217 07/20/89 (Rev 4). No increase requested
8	01OCT90	8,290	322,240	Funds available 01-10OCT90
9	01OCT90			Change of address
10	09OCT90	13,471	335,712	Funds available 11-24OCT90
11	20OCT90	10,363	346,075	Funds available 25-31OCT90
12	01NOV90	353,375	699,450	Funds available 01NOV90 - 30SEP91
13	01OCT90	1,556	701,056	Consumer Foods Price Index 5% price increase adjustment
14	27AUG91			Contract extended 01OCT91 - 30SEP92
15	11SEP90	(85,587)	614,469	Deobligation of funds (1st Option Year total - \$300,519)

Source: Contract file for Group San Diego Food Service, Contract Number DTCG89-90-C-70013, located at Maintenance and Logistics Command, Pacific, Alameda, CA.

As in the previous contract, performance is seen as very satisfactory by the Government, with no major problems and no deductions taken for

unsatisfactory performance. The COTR for this activity, a Chief Subsistence Specialist (SSC) who is also the Group's Exchange Officer, has been assigned to his duties since 1987. He has attended Navy QA training in San Diego and feels that it did not help him in his COTR duties [1c].

Mr. Tony Javier, the contractor's Project Manager (PM), is a major reason for the success of this contract. Mr. Javier is a retired USCG Master Chief Subsistence Specialist (SSCM) who worked at the Group dining facility when it was established in 1975 and again just prior to his retirement from the Coast Guard. Upon retirement, he was hired to serve as the PM of the Group San Diego dining facility by Aleman Food Service. He continued on as the PM for the present contractor. Both the Group personnel and the contractor recognize that Mr. Javier's past experience and expertise have been a key factor in maintaining a high quality dining facility. The transition between contractors was virtually invisible to the Group with Mr. Javier retained as the PM [29,30].

Cost increases for this contract have come from two areas. First, an increase from the past

TABLE VI

contract was experienced with the award of the present contract, where there is a difference of \$57,440 a year (or \$337,200 for the entire contract) from the original A-76

**COST INCREASES TO CONTRACT PRICE
GROUP SAN DIEGO FOOD SERVICE
01OCT89-30SEP91**

Base Year: 01OCT89-30SEP90

Deobligation: (\$71,550)

Option Year 1: 01OCT90-30SEP91

Consumer Food Price Increases: \$1,556

Deobligation: (\$86,587)

contract with Aleman Food Service. The only other increase in the present contract came from an economic price increase for food in Mod 13 which was for \$1,556.

Even with the increased contract cost, there have been deobligations in the contract due to a reduced number of meals served. These

deobligations have offset the cost increases. In 1990, there was a \$71,550 decrease (Mod 6) which made the base year obligation only \$313,950. In 1991, there was a \$86,587 decrease (Mod 15) which made the first option year obligation only \$300,519. Both of these amounts are less than the annual amounts initially obligated for any of the option years in the previous contract. These cost increases are summarized in Table VI.

Two potential problems the contractor is facing may have an affect on the costs of future option years. The continued declining meal sales may bring costs down, however this may be partially offset by future wage increases that the PM believes should occur because the other contract Government dining facilities in the San Diego area receive higher wages than the Coast Guard's contractor-run facility [24].

3. Support Center Seattle Security

This commercial activity contract was for protection of the Coast Guard Support Center in Seattle, WA, which has an area of 15 acres with waterfront and 15 tenant commands. The contract for this activity was awarded to Professional Services Unlimited of Tacoma, WA by negotiations through the SBA 8(a) program. This contract displaced five civilian Government billets when it went into effect on October 1, 1985 for a base year and four option years at a total price of \$1,044,287. The annual contract price was reduced by \$89,060 in the 2nd option year when the number of guards required for the contract was reduced by one, and the requirement for a vehicle was deleted (effective January 1, 1987). In the past study (October 1985 - October 1988) eleven modifications were issued to the contract. Since October 1, 1988, twelve modifications have been issued (11-23) which included a contract extension of six months. The contract modifications are provided in Table VII. Five of these modifications were required as a result of Congressional continuing resolutions.

TABLE VII

MODIFICATIONS TO CONTRACT DTG33-85-R-01862
SUPPORT CENTER SEATTLE SECURITY GUARD SERVICE, SEATTLE, WA
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
1-10	01OCT85 30SEP88		513,665	Obligation from Contract Base and 1st and 2nd Option Year.
11	01OCT88	205,303	718,968	Contract extended 01OCT88 - 30SEP89 (3rd Option Year)
12	16MAY89	(89,583)	629,384	Funds deobligated from contract. Corrected error from Mod 11. (3rd Option Year - FY89 total - \$115,720).
13	01OCT89	9,660	639,045	Contract extended 01OCT89 - 30SEP90 (4th Option Year). Government Funds available 01-31OCT89 (Continuing Resolution). DOL Wage Determination 87-862 09/19/88 (Rev 1). No increase requested.
14	01NOV89	9,660	648,705	Funds available 01-30NOV89.
15	01DEC89	96,604	745,309	Funds available 01DEC89 - 30SEP90
16	19SEP90			Negotiated Contract extension 01OCT90-30NOV90. (4th Option Year - FY90 total - \$115,924) DOL Wage Determination 87-862 09/20/89 (Rev 2). No increase requested.
17	01OCT90	2,489	747,797	Limited Government funds available 01-10OCT90 (Continuing Resolution).
18	09OCT90	4,041	751,841	Funds available 10-24OCT90.
19	22OCT90	3,111	754,952	Funds available 25-31OCT90.
20	16NOV90	28,930	744,882	Contract extended 01NOV90 - 31JAN91.
21	17JAN90	9,643	784,525	Contract extended 01FEB91 - 29FEB91.
22	08FEB91	6,657	791,183	Additional Security Guard for 1.5 months due to Desert Storm Threat Condition upgrade.

**TABLE VII
(CONTINUED)
MODIFICATIONS TO CONTRACT DTCG33-85-R-01862
SUPPORT CENTER SEATTLE SECURITY GUARD SERVICE, SEATTLE, WA
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC**

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
23	01MAR91	19,471	810,655	Contract extended 01-31MAR91 (Contract extension - FY91 total (6 Months) - \$65,346). New contract negotiated with same contractor - awarded 28MAR91. Base Year - \$81,295 Option Year 1 - 156,346 Option Year 2 - 158,107 Option Year 3 - 156,555 Option Year 4 - \$156,707

Source: Contract file for Support Center Seattle Security, Contract Number DTCG33-85-R-01862, located at Maintenance and Logistics Command, Pacific, Alameda, CA.

The new contract was awarded through negotiations with the same contractor and became effective on March 28, 1991. The base and four option years contract value was \$709,010. The six month extension of the original contract was required during extended negotiations for the new contract. The delay in contract award was caused primarily by the Government due to extended negotiation preparations and time for the DCAA audit of the contractor's proposal [8].

The contractor has performed satisfactorily throughout the previous contract period with the new award of the contract as evidence of acceptable performance. The only deduction for unsatisfactory performance occurred when \$446 was deducted in May 1990 for 14 "minor discrepancies". However, it is not known if this amount was deducted from the contractor's payments since it is not reflected in the contract file. The USCG Contract Specialist for this contract stated that the specifications of the old contract were satisfactory but that the new contract was an improvement with a better defined scope of work [8].

The COTR for this contract is a LTJG who has been assigned to the Support Center for just over four months. He has not been a COTR before and has requested COTR training from MLCOPAC. He was debriefed by the prior COTR and is not aware of any major problems in contract performance [21].

Cost increases in this contract during the period of this study came from two sources. DOL wage determinations incorporated in the last study period in the base and option years one and two carried over into option year three, four, and the six month extension

TABLE VIII
COST INCREASES TO CONTRACT PRICE
SUPPORT CENTER SEATTLE GUARD SERVICE
01OCT88-31MAR91

Option Year 3: 01OCT88-30SEP89

Wage Increase: \$1,994

Option Year 4: 01OCT89-30SEP90

Wage Increase: \$1,994

Contract Extension: 01OCT90-31MAR91

Wage Increase: \$997

Increased Work: \$6,657
(Additional Guard)

(\$1,994/year, \$4985 total). The other source of cost increase came during Operation Desert Storm. In February 1991, an additional guard was added to upgrade the security of the Support Center for 1.5 months (\$6,657). The most recent DOL wage determination was also incorporated in the cost for the increased guard requirement. These cost increases are summarized in Table VIII. While conducting the research on this contract, the contractor declined to be interviewed.

Costs in this contract can only be decreased with a reduction in the number of personnel required for security. However, a new requirement is under consideration by the Support Center for the guards to carry firearms. The possibility of this future requirement is addressed in the new contract, and if incorporated, will increase contract costs.

B. STUDY OF THREE ADDITIONAL COMMERCIAL ACTIVITIES

Along with updating the study of the three commercial activities analyzed in LCDR Omatsu's thesis, this researcher analyzed three additional commercial activities that were contracted-out under OMB Circular A-76. The criteria for selection of the three contracts were:

- Pacific Area contracts to observe the same contract administration as in the previously studied contracts
- Similarity to the complexity of the contracts in the previous study
- Contracts that had deleted billets of the rate most severely affected by A-76 (Subsistence Specialists (SS))
- Commercial activities in high cost areas that may be difficult to support
- Mature (completed) and current (ongoing) contracts

The three commercial activities that were chosen for this segment of the study were the Support Center Kodiak Food Service, Base Ketchikan Food Service, and Support Center Alameda Security Service.

1. Support Center Kodiak Food Service

The Coast Guard Support Center in Kodiak, Alaska is the Coast Guard's largest shore facility in the Pacific Area. With this facility on a semi-remote island in South Central Alaska, it is close to the end of the Coast Guard's logistics chain. Outside support to the facility can easily be disrupted by severe weather experienced frequently throughout the year. Also shipments of major machinery and equipment can only be delivered by sea through the use of tug and barge or container ship [7].

The Support Center is home to the Coast Guard's largest Air Station which is heavily involved in Alaska Fisheries patrol and Search and Rescue missions. Other major units with personnel at the Support Center include two Medium Endurance Cutters, two Buoy Tenders, a large Communications Station, and a Loran Station.

The Support Center has a large dining facility which has a customer base of almost 80 officers and 700 enlisted personnel. The Coast Guard operated this facility with 20 personnel.

COMDT(G-A76) coordinated the study of this facility and 25 other food service activities in the summer of 1985, and on November 12, 1985, they developed a combined Most Efficient Organization and determined the overall cost savings for these activities. The SBA recommended Diversified Contract Services of Oakland, CA as an SBA 8(a) contractor available for the contract. Negotiations were conducted by Coast Guard Headquarters and the contract was awarded and in effect on January 1, 1986 for a base year of \$576,759 and a total contract price of \$3,861,000. This contract deleted all but one of the SS billets at the dining facility with the senior SS remaining as the COTR. The original contract was extended for 1.5 months after the end of the fourth option year while awaiting the new contract award. Over the life of this contract, there were twenty-four modifications which are summarized in Table IX. Six of these modifications were required as a result of Congressional continuing resolutions.

TABLE IX

**MODIFICATIONS TO CONTRACT DTCG35-86-C-60011
SUPPORT CENTER KODIAK FOOD SERVICE, KODIAK, AK
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC**

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
1	29NOV85			Change Contract number. Contract in effect 01JAN86.
2	03NOV86			Add cleaning service to Contract

**TABLE IX
(CONTINUED)
MODIFICATIONS TO CONTRACT DTCG35-86-C-60011
SUPPORT CENTER KODIAK FOOD SERVICE, KODIAK, AK
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC**

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
3	01OCT86	576,759	576,759	End of Base Year (FY86 estimated total \$576,759). Economic price adjustment. DOL Wage Determination 88-1158 12/5/85. Wage increase not taken.
		731,345	1,308,113	Contract extended 01OCT86 - 30SEP87 (1st Option Year - FY87 estimated total \$785,947 See Mod 5)
4	01OCT87	128,169	1,436,282	Contract Administration changed from 17th District, Juneau, AK to MLC PAC, Alameda, CA. Contract extended 01OCT87 - 30SEP88 (2nd Option Year). Limited Government Funds available 01OCT87 - 30NOV87 (Continuing Resolution).
5	06NOV87	54,602	1,490,884	Equitable Adjustment Increase for 01OCT86 - 30SEP87.
6	01DEC87	128,168	1,619,052	Funds available 01DEC87 - 31JAN88.
7	01FEB88	528,056	2,147,108	Funds available 01FEB88 - 30SEP88
8	16JUN88	85,228	2,232,336	Economic Price Adjustment. Unionized 01OCT87. (2nd Option Year - FY 88 total \$869,620)
9	01OCT88	854,000	3,086,336	Contract extended 01OCT88 - 30SEP89 (3rd Option Year)
10	01OCT88			Economic Price Adjustment. New prices per meal.
11	20JAN89	18,864	3,105,200	Brimfrost '89 exercise meals.
12	19JUN89			IRS tax levy. Contractor was not paying taxes to IRS.
13	01JUN89			Tax offset payment to IRS vice contractor.

**TABLE IX
(CONTINUED)
MODIFICATIONS TO CONTRACT DTCG35-86-C-60011
SUPPORT CENTER KODIAK FOOD SERVICE, KODIAK, AK
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC**

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
14	14SEP89			PACEX Food - \$119,588 - outside scope of original contract. (Third Option Year - FY89 total \$733,705*).
		(139,159*)	2,966,041	* \$139,159 not recorded as deobligated in contract record
15	01OCT89	71,166	3,037,207	Contract extended 01OCT89 - 30SEP90. Limited Government funds available 01-30OCT89 (Continuing Resolution). DOL Wage Determination 87-110 09/18/87 (Rev 1). No increase requested.
16	01NOV89	71,166	3,108,373	Funds available 01-30NOV89
17	01DEC89	711,660	3,820,033	Funds available 01DEC89 - 30SEP90
18	15AUG90	(200,000)	3,620,033	Deobligate excess funds (4th Option Year - FY90 total - \$653,992).
19	19SEP90			Contract extended 01-31OCT90. DOL Wage Determination 87-1170 01/25/90 (Rev 2). No increase requested.
20	01OCT90	15,484	3,635,517	Limited Government funds available 01-09OCT90 (Continuing Resolution).
21	10OCT90	25,162	3,660,679	Funds available 10-24OCT90
22	30OCT90	19,355	3,680,034	Funds available 26-31OCT90
23	01NOV90	30,000	3,710,034	Contract extended 01-15NOV90
24	19NOV90	(88,835)	3,621,199	Deobligate funds (Contract extension cost - \$1,164). New contract award for same contractor won through small business competition. New Contract Base Year 16NOV90 - 30SEP91 for \$572,219 (653,663/ Year - \$3,318,871 total)

Source: Contract file for Support Center Kodiak Food Service, Contract Number DTCG35-86-C-60011, located at Maintenance and Logistics Command, Pacific, Alameda, CA.

Performance of this contract had been satisfactory with no deductions taken for unsatisfactory performance, however, the COTR recommended deductions in the past, and also stated that recent customer satisfaction was below average, and the number of meals sold by the contractor was declining [12]. The present COTR for the contract is a SSC who has been at Kodiak for two years, and in his previous assignment was the COTR for a food service contract at the Coast Guard's Aviation Training Center in Mobile, AL. He is probably one of the better trained COTR's in the Coast Guard because of his past experience and has attended various COTR and QA training on four occasions. The COTR feels that he is adequately prepared to perform his COTR duties.

The Deputy Comptroller of the Support Center, who has been at Kodiak since the dining facility was contracted-out, had mixed comments on the contractor's performance, but feels that the meal quality is better than when the facility was run by the Coast Guard [15].

The contractor's contract specialist stated that the contract worked well and was a smooth operation, even though the company experienced severe financial difficulties during the third option year [13]. In June 1989, the contractor filed for Chapter 11 bankruptcy and began a court supervised reorganization. During this period, contract payments were being sent directly to the Internal Revenue Service until the contractor obtained new creditors. While the food service was not affected by these problems, there was one major effect of the Chapter 11 reorganization on the Support Center. The contractor was authorized to purchase some food items from the Coast Guard commissary on credit. At the time of filing for restructuring under Chapter 11 of the bankruptcy law, the contractor ran up a food bill of \$75,000, which has not been paid back to date [7]. The contractor may now only purchase food at the commissary at much smaller quantities and on a cash basis only.

One problem area in this contract is the specifications. They were seen as ambiguous in some areas, and in the past, it was perceived that

the contractor would take advantage of the ambiguities. They did this by negotiating higher than the original contract meal prices for additional work that should have been within the scope of work in the original contract. This added work was for "exercise meals" that resulted from various large military readiness exercises that involve personnel from the Support Center and the Air Station, as well as many transient personnel from Coast Guard Reserve units and other military Services [12].

The contractor's supervisory personnel on this contract changed frequently. The PM has changed three times during this contract, but the "line" workers employed by the contractor are familiar faces as many are dependents of Coast Guard personnel assigned to the Support Center [7,15].

Contract administration of this contract was conducted by the Seventeenth Coast Guard District (D17) in Juneau, AK from January 1, 1986 to October 1, 1987, and then the contract moved to the newly organized MLC PAC Alameda, CA., when the Coast Guard reorganized and consolidated Pacific Area contract support functions. When MLC PAC received control of D17's contracts just prior to the end of FY87, the head of MLC PAC's Contract Section commented that the contracts administered by D17 contained little documentation, seemed to be based on verbal and handshake agreements, and that his contract specialists had to patch-up those contracts as best they could to keep them running [16].

Cost increases in this contract came from wage increases and additional exercise meals. However, end of the year deobligations due to declining meals sold kept the overall contract price below the original estimate. Under D17 contract administration, it cannot be determined from the contract record if a wage increase was requested by the contractor and authorized by the Government. After the change of contract administration to MLC PAC, the first increase was an equitable adjustment in wages while under D17 administration for \$54,602 in November 1987 (Mod 5). The next increase came from a settlement for higher wages after the contractor's employees unionized. The contractor's employees became unionized on

October 1, 1987, but the cost increase was not settled until June 18, 1988 for \$88,228 (Mod 8). In January and June 1989, "exercise meals" caused an increase of \$18,864 (Mod 11) and \$119,588 (Mod 14) respectively. In the contract file, the amount for Mod 14 was not added as a cost to the contract because the work was deemed to be outside the scope of the original contract and was subject to a separate negotiation, however, this was added work that required additional funds.

During option year three, \$733,705 was the amount obligated for the contract, however, the modifications for obligated funds and increases during this period resulted in a \$139,159 difference. This gap could not be explained by MLC PAC, however it is possible that this difference could have been a deobligation not recorded as the number of meals sold were declining during this period.

TABLE X
COST INCREASES TO CONTRACT PRICE
SUPPORT CENTER KODIAK FOOD SERVICE
01JAN86-15NOV90

<u>Base Year: 01JAN86-30SEP86</u>
Increase: None
<u>Option Year 1: 01OCT86-30SEP87</u>
Increase: None
<u>Option Year 2: 01OCT87-30SEP88</u>
Wage Increase: \$54,602
Wage Increase: \$85,228
<u>Option Year 3: 01OCT88-30SEP89</u>
Exercise Meals: \$18,864
Deobligation: (\$139,159)
<u>Option Year 4: 01OCT89-30SEP90</u>
Deobligation: (\$200,000)
<u>Contract Extension: 01OCT90-15NOV90</u>
Deobligation: (\$88,835)

In the fourth option year, a large deobligation took place at the end of the fiscal year for \$200,000 (Mod 18) because the number of meals sold continued to decline. This decline in the number of meals sold during this contract could be attributed to a number of sources. First there are

two alternate sources for meals at the Support Center. The new "Golden Anchor" is a large Coast Guard operated club/restaurant which opened in 1986 and has experienced increased popularity. Across the street from the dining facility is a fast food snack bar located in the new exchange/commissary complex. A second factor was the awarding of the Base Operating Support Services (BOSS) contract for the Support Center in June of 1988. When this A-76 contract was awarded, 96 civilian and 105 military billets were deleted, greatly reducing the customer base of the dining facility [45].

The contract extension was negotiated at a reduced rate from the previous year's obligation (\$60,000/month vs. \$71,167/month), however, the end of the extension period deobligation of \$88,835 resulted in an extension cost of only \$1,164. It is not clear in the contract file why this 1.5 month contract cost was so low. A Summary of contract cost increases are outlined in Table X.

Diversified Contract Services graduated from the SBA 8(a) program at the end of this contract, and MLCFAC with SBA's assistance decided that there were enough contractors to hold a small business competition for the new contract. Eleven contractors submitted bids for the contract. Diversified was the third lowest bidder, but the two lower bidders were determined to be non-responsible, and Diversified won the award. The present contract is for \$686,663 a year with a base year of 10.5 months and a total contract value of \$3,318,871. The small business competition for this service contract has driven down the contract cost to a price lower than the previous contract final cost by \$47,065/year.

For the future of this commercial activity, the Support Center's Commanding Officer is concerned with possible cost increases and even more concerned about the contractor's financial condition. If the contractor defaults on the contract, there aren't enough Coast Guard SS's available in Alaska to perform in place of the contractor [7]. The contractor, under new ownership, is considered to be much more stable than they were

in 1989, and they presently have eight other Government food service contracts [9,13]. Future cost increases in this contract may come from wage and food price increases, but the increase may be offset if the meal rate is reduced.

2. Base Ketchikan Food Service

This Coast Guard Base located in Ketchikan, Alaska, is an operating base that also has the 17th Coast Guard District's only Group unit. The Group's operational area of responsibility encompasses all of the Alaskan panhandle or "Southeast Alaska". In addition to Group personnel, the Base contains an industrial facility for buoy maintenance and Patrol & Small boat overhaul and repair. Tenant commands include a small boat station, 180 Ft Buoy Tender, and 110 Ft Patrol Boat.

In late 1984, it was determined by COMDT(G-A76) that the Base's dining facility would be contracted out and an SBA 8(a) contractor, Big Boy Facilities, Inc., in Anchorage, Alaska was recommended by the SBA. This was the first of two SBA 8(a) contractors to perform on this contract.

In the first contract, negotiations were conducted during the Summer of 1985 by the 17th Coast Guard District with Big Boy Facilities, Inc. The contract went into effect on October 1, 1985 with a contract price of \$307,132 a year for the base and four option years. The total contract price was \$1,535,660. When effective, this contract deleted six junior SS billets with the SSC and SS1 billets remaining. The SSC was assigned as the COTR for the contract, and the SS1 was the Assistant Exchange Petty Officer and Club Manager. Contract administration was initially conducted by the 17th Coast Guard District from October 1, 1985 through October 1, 1987. MLCFAC Alameda, CA took over contract administration from October 1, 1987 to present. Twenty-one contract modifications were incorporated into this contract and are summarized in Table XI. Six of the modifications were required as a result of Congressional continuing resolutions.

TABLE XI
MODIFICATIONS TO CONTRACT DTCG35-85-C-50090
GROUP/BASE KETCHIKAN FOOD SERVICE, KETCHIKAN, AK
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
1	31DEC85	(17,302)	289,830*	Inventory credit for provisions on hand. Funds available for Base Year of contract 01OCT85-30SEP86 - \$307,132* (* Estimate based on Post Negotiation Memorandum in contract file).
2	06FEB86			Price of meals
3	16APR86			New Performance Work Statement
4	01OCT86	(26,343)	255,263	Deobligation of funds from contract (decrease in meals served).
				DOL Wage Determination 85-1158 12/05/85 - 8.63% increase requested. Economic price adjustment for food - 1.15% increase requested.
		(7,864)	255,623	Additional estimated deobligation not recorded in contract file
		320	255,943	Claim for fire damage End of Base Year - FY86 estimated costs - \$255,943
		307,132	570,616	Contract extended 01OCT86 - 30SEP87 (1st Option Year).
5	10MAR87	130	570,746	Claim for damage - broken water pipe.
		(26,157)		Estimated deobligation not recorded in contract file (End of 1st Option Year - FY87 costs - \$281,105)
6	01OCT87	49,951	620,697	Contract Administration change from 17th District, Juneau, AK to MLC PAC, Alameda, CA. Contract extended 01OCT87 - 30SEP88. Government funds available 01OCT87-30NOV87 (Continuing Resolution).
7	18FEB88	155,091	775,794	Funds available 01DEC87 - 31JUL88

**TABLE XI
(CONTINUED)
MODIFICATIONS TO CONTRACT DTCG35-85-C-50090
GROUP/BASE KETCHIKAN FOOD SERVICE, KETCHIKAN, AK
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC**

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
8	09SEP88	51,000	826,794	Funds available 01AUG88 - 30SEP88. (2nd Option Year - FY 88 total \$256,048)
9	01OCT88	307,132	1,133,926	Contract extended 01OCT88 - 30SEP89 (3rd Option Year). DOL Wage Determination 86-413 06/29/87 (Rev 3). Increase taken in Mod 10.
10	01JUL89	30,407	1,164,334	Economic Price Adjustment for food. New prices per meal. DOL Wage Determination increase applied. (End 3rd Option Year - FY89 total - \$337,539)
11	01OCT89	24,333	1,188,667	Contract extended 01OCT89 - 30SEP90 (Option Year 4). Limited Government funds available 01-31OCT89 (Continuing Resolution).
12	01NOV89	24,333	1,213,000	Funds available 01-30NOV89.
13	01DEC89	243,333	1,456,333	Funds available 01DEC89 - 30SEP90.
14	14SEP89			DOL Wage Determination 86-483 02/27/89 (Rev 4). Increase requested (End 4th Option Year - FY90 total - \$292,000).
15	01OCT90	7,226	1,463,560	Contract extended 01-09OCT90. Limited Government funds available 01-09OCT90 (Continuing Resolution).
16	09OCT90	11,742	1,475,302	Funds available 10-24OCT90
17	22OCT90	8,129	1,483,431	Funds available 25-31OCT90
18	28NOV90	84,000	1,567,431	Contract extended through 31JAN91.
19	14JAN91	56,000	1,623,431	Contract extended 01FEB91-31MAR91
20				Adjusted price per meal not accepted.

**TABLE XI
(CONTINUED)
MODIFICATIONS TO CONTRACT DTCG35-85-C-50090
GROUP/BASE KETCHIKAN FOOD SERVICE, KETCHIKAN, AK
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC**

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
21	08JUL91	18,497	1,641,928	Adjustment to settle contract. Contractor graduated from 8(a) program (Contract extension FY91 total - \$185,594). New contract began 15APR91 with 8(a) firm E&S Diversified Services. New contract costs: Base Year(5.5 Months) \$190,449 1st Option Year 404,462 2nd 404,783 3rd 405,117 4th \$405,461

Source: Contract file for Base Ketchikan Food Service, Contract Number DTCG35-85-C-50090, located at Maintenance and Logistics Command, Pacific, Alameda, CA.

Performance of this contract has been determined to be satisfactory to excellent by the Government and contractor over the life of this contract, with no deductions taken for unsatisfactory performance. However, this contract had a difficult beginning [8,18,20,23,31].

According to the present contract Project Manager (PM), Mr. Joe Griffin, the first four months of the contract were extremely difficult. Mr. Griffin retired from the Coast Guard in Ketchikan as a First Class SS and was hired by the contractor as Head Cook for the new contract. Apparently, the first PM hired did not have the experience to operate a dining facility for military customers. He tried to operate the facility like a commercial restaurant with little success. The contractor replaced the original PM with Mr. Griffin, and operations greatly improved as the new PM was better able to relate to his Coast Guard customers [5,18]. In this case as in the San Diego Food service contract, the PM being a motivated prior service SS was a big factor in the success of a contract operation.

Another difficult area experienced by the contractor occurred in the first two years of contract performance when wages and food prices increased, but the contractor wasn't afforded the opportunity to request an increase in the contract until the second option year. It is not known why this occurred [15].

The relationship between the contractor and his customers has been very good [23]. The COTR for this contract was reassigned after this contract ended and was not interviewed concerning the contractor's performance. The alternate COTR is now the COTR for the present contract. He confirmed that there was a good working relationship between the contractor and customer. The present COTR has attended one week of COTR training held by GSA. He stated that the training was a good basic course in contract fundamentals, but that QA paperwork requirements were still a gray area [38].

The contractor had been "flexible" many times during contract performance due to the broad specifications in the contract. The contractor has on occasion allowed the Base to purchase food from them at cost for special morale events, and has provided assistance in setting up [5]. The contractor acknowledged that the flexibility available in this contract was due to the good profit margin negotiated in this 8(a) contract, and the "little extra's" could be allowed in this food service contract without placing claims for extra work [20].

The major cost increases during this contract did not occur until after the first two years of performance when the contract administration was shifted to MLC PAC in Alameda, CA. In the contract file under the 17th District (D17) contract administration, documentation of actions were limited and actions taken during this period of the contract are difficult to reconstruct. A post negotiation memorandum in the contract file provided the negotiated price of \$307,132 a year, however the contract file did not document what amount was actually obligated for the base and first option year. During the first two years of contract performance,

D17 allowed two claims for damage totaling \$450. There were also two decreases in contract price in the first two years. The first decrease was a credit of \$17,302 for provisions on hand transferred to the contractor when the contract began. This credit was given three months after the contract began. There was also a total estimated deobligation of \$60,364 made for reduced meals sold. These decreases caused the actual contract price to be well below the original estimate in the base and option years. The lack of documentation in this contract through D17 contract administration was similar to that experienced in the Support Center Kodiak food service contract.

Under MLCFAC contract administration, the DOL wage determination increase was applied and combined with an economic price adjustment for food totaling \$30,407 (Mod 10). The contractor related that he had applied for adjustments during the first years of the contract and was pleased when this adjustment was finally made. Again, the contractor's "good" profit margin and flexibility in the contract were given as his reasons not to pursue a claim [20]. Under MLCFAC administration in the 2nd and 4th option years, \$256,048 and \$292,000 respectively were obligated and the original price for all contract options of \$307,132 was not used. However, this amount was obligated during the 3rd option year. The MLCFAC Contracting Officer and Contract Specialist couldn't recall the reason for the decreased original obligation. However, it is possible that these option years were re-negotiated at a lower cost due to declining meals sold in the past. The contract went into a six month extension while the Statement of Work was being revised for the new contract. This extension, with a wage determination increase incorporated resulted in an increase of \$19,223. A summary of Cost increases are provided in Table XII.

When Big Boy Facilities, Inc. graduated from the SBA 8(a) program, a new contractor, E&S Diversified Services of Anchorage, AK, was recommended by the SBA for the contract. The new contract was negotiated and became

effective on April 15, 1991 with a base and four option years totaling \$1,810,272. This is an average of \$403,808 per year. Mr. Griffin was hired by the present contractor as the PM which made the change of contractors invisible to the customer [31].

Cost reductions in this contract may occur if the number of meals sold decreases from the original estimate, however, wage and food price increases are expected to continue [8].

TABLE XII
COST INCREASES TO CONTRACT PRICE
BASE KETCHIKAN FOOD SERVICE
01OCT85-15APR91

Base Year: 01OCT85-30SEP896

Inventory Credit: (\$17,302)
Deobligation: (\$26,343)
Claim for Fire Damage: \$320

Option Year 1: 01OCT86-30SEP87

Claim for damage: \$130
Estimated Deobligation: (\$26,157)

Option Year 2: 01OCT87-30SEP88

Difference between contract price and amount obligated: (\$51,084)

Option Year 3: 01OCT88-30SEP89

Wage and Food Price Increase: \$30,407

Option Year 4: 01OCT89-30SEP90

Difference between contract price and amount obligated: (\$15,132)

Contract Extension: 01OCT90-11APR91

Wage Increase: \$19,233

3. Support Center Alameda Security

This relatively new contract is for security guard services for the Coast Guard Support Center on Government Island in Alameda, CA. The Support Center island complex has one entrance via a bridge and is the home of many major Coast Guard commands. These include the Coast Guard Pacific Area Headquarters, the Maintenance and Logistics Command, Joint Task Group Five, and four 378-foot High Endurance Cutters. The

solicitation for this contract was an IFB set-aside for small business. The lowest responsible bidder was United International Investigative Services of Anaheim, CA. When the MEO comparison was conducted by COMDT(G-CPE-4) in June 1989, the contractor's bid was low, and the contract awarded. This contract went into effect on October 1, 1989 for \$210,966 for the base year and \$215,463 for each option year with a total contract price of \$1,072,818. Ten military billets were deleted as a result of this contract. Eleven modifications have been incorporated into this contract and are summarized in Table XIII. Six modifications were required as a result of Congressional continuing resolutions.

TABLE XIII

**MODIFICATIONS TO CONTRACT DTCG89-89-C-70027
SUPPORT CENTER ALAMEDA SECURITY, ALAMEDA, CA
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC**

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
1	31AUG89			Bilateral Mod, Clauses added. Contract begins 01OCT89.
2	01OCT89	17,581	17,581	Limited Government funds available 01-31OCT89 (Continuing Resolution).
3	27NOV89	17,581	35,161	Funds available 01-30NOV89.
4	01DEC89	175,805	210,966	Funds available 01DEC89 - 30SEP90
5	30AUG90			Contract Extension 01OCT90 - 30SEP91. DOL Wage Determination 87-38 08/13/89 (Rev 1) (End of Base Year FY90 total - \$210,966)
6	01OCT90	4,634	215,599	Limited Government funds available 01-09OCT90. (Continuing Resolution)
7	09OCT90	7,529	223,130	Funds available 10-24OCT90
8	22OCT90	5,762	228,922	Funds available 25-31OCT90
9	01NOV90	197,507	426,049	Funds available 01NOV90 - 30SEP91

**TABLE XIII
(CONTINUED)
MODIFICATIONS TO CONTRACT DTCG89-89-C-70027
SUPPORT CENTER ALAMEDA SECURITY, ALAMEDA, CA
MAINTENANCE AND LOGISTICS COMMAND, PACIFIC**

MOD NO.	DATE	AMOUNT OF INCREASE	CONTRACT TOTAL	REMARKS
10	01OCT90	37,621	464,049	DOL Wage Determination 87-38 08/13/89 (Rev 1). Increase for 1st Option year. (1st Option Year - FY91 estimated total cost \$253,113 - See Mod 11)
11	03JAN91			Correct error in Mod 8 (Increase was \$5,762, corrected to \$5,792)

Source: Contract file for Support Center Alameda Security, Alameda, CA Contract Number DTCG89-89-C-70027, located at Maintenance and Logistics Command, Pacific, Alameda, CA.

Performance in this contract has been determined to be marginally satisfactory by the Commanding Officer of the Support Center (the customer) and the COTR [10,22]. Also, some problems with the contractor are still being experienced by the Government Contract Specialist two years after contract award [25].

Early in the contract performance period, the contractor was unable to obtain fully qualified personnel and turnover was unusually high. The wage rate for this contract was lower than other security contracts in the area and therefore it was difficult to attract and retain qualified employees. Many of the new employees were hired off the street and were at times given a uniform and told to learn their tasks on the job. This was in violation with the contract specifications [10,22,25].

Both the Coast Guard contract specialist and COTR believe that the lack of leadership and poor communication skills exhibited by the contractor's PM was a contributing factor to the contractor's marginal performance on this contract. The PM has been in the security field for 13 years and is the contractor's PM in three other Government security contracts in the Bay area. Even though the PM makes rounds at the Support

Center, the COTR and contract specialist claim she is not actively ensuring that the new employees are fully qualified until there is a breach of security. The PM tends to operate at more of a working level with other employees rather than in a supervisory role [25].

A major problem is the lack of Quality Assurance (QA) Plan by the contractor, and the lack of a QA surveillance plan by the Government. These plans are essential to successfully monitor and administer the contract. The Contract Specialist has sent a letter to the contractor requesting their overdue QA plan, and she has discussed the Coast Guard's problem with the COTR, but neither plan has been completed [25]. The COTR is a Chief Boatswain's Mate (BMC) and has been on the job for one year. He has attended a USCG/contractor taught QA course and felt that while it was helpful in contract fundamentals, it didn't adequately address COTR duties and found it difficult to apply to this security contract. He has requested assistance from the Contract Specialist in developing the QA surveillance plan, but believes she is too busy with contract work to assist him [22].

Deductions have been taken on this contract for unsatisfactory performance. A deduction was taken after the latest modification was issued for a contract employee sleeping while on roving patrol, and more recently a deduction was taken for a watchstander missing a round and later falsifying the watch log to cover-up the incident. Without the QA surveillance plan, it was difficult to properly justify the amount of these deductions.

There was and still is a problem in ensuring that the security force is receiving the required training. Not all of this problem has been the fault of the contractor. Firearms training is the responsibility of the contractor. However, in the contract specifications, shotgun and practical pistol range training is to be conducted by the Government. There is an unresolved legal and policy issue which questions whether the Coast Guard can provide firearms training to non-Government civilians.

The contractor PM's supervisor in Anaheim, CA perceives the contract is operating smoothly and stated that he wasn't aware of any deficiencies in the contract [19]. The PM confirmed that the beginning of the contract was difficult because of the initial wage rate didn't

attract good people, but wage increases have resulted in a more stable and improved workforce [40].

Cost increases for this contract occurred due to a wage increase at the end of the first option year for \$37,621 (Mod 10) and it is expected that this increase will be applied to future option years [25]. Because this wage rate is still lower than other security contracts in the same area, wages may continue to increase causing contract cost increases. In August 1991, a new DOL wage determination for this contract was received by MLCAPAC. The new wage has increased by twice the amount of the last wage increase. If this wage increase is requested by the contractor, it is expected to be almost double the increase of Mod 10 [25]. A summary of the actual and anticipated cost increases of this contract are provided in Table XIV.

TABLE XIV
COST INCREASES TO CONTRACT PRICE
SUPPORT CENTER ALAMEDA SECURITY SERVICE
01OCT89-30SEP92*

Base Year: 01OCT89-30SEP90

Increase: None

Option Year 1: 01OCT90-30SEP91

Wage increase: \$37,621

Option Year 2: 01OCT91-30SEP92*

Wage increase: \$37,621

Wage increase: \$71,211*

* - Projected

C. COMPARISONS OF COST OF PERFORMANCE

The six commercial activities studied have experienced many contract cost changes. To determine if the activities are operating at a savings to the Government, a comparison was made of the actual cost with the original contract cost, and the Government's Most Efficient Organization (MEO). Actual and original contract costs were obtained from the contract file (if available) and also from the cost comparison conducted by COMDT(C-CPE-4). MEO costs for each of these activities are on file with COMDT(G-CPP-2) [47]. MEO costs were computed using instructions from the OMB Circular, which include using current standard Government GS and Military pay scales with annual inflation and retirement factors provided by OMB. MEO costs are not maintained by the MLCFAC Contract Section because A-76 service contracts are not differentiated from other service contracts [57].

The initial annual contract award cost of an A-76 contract is used as the base for Coast Guard Headquarters funding of these contracts. After the initial funding was provided, the funding bases of these contracts have not changed. Also, contract costs have not been reviewed by HQ to see if costs have increased or decreased. At the MLCFAC or Coast Guard District budgets manager levels, contracts that experienced cost overruns are "covered" within the budget by those contracts or other accounts that have cost underruns [26].

All of these contracts were initially awarded because they were lower than the Government's MEO by 10% or greater of MEO personnel cost. Four of the original contracts in this study (Base Honolulu housing maintenance, Group San Diego food service, Support Center Seattle security, and Support Center Kodiak food service) remained lower than the original contract cost in their performance, therefore they remained lower than the MEO. The cost comparisons of these four contracts and the amount within the total MEO are shown in Table XV.

TABLE XV

COST COMPARISON OF CONTRACT AND "SHOULD COST" MEO

Activity	Contract (K)	Contract Costs		%More (Less) Than MEO
		Total	Avg Annual	
Base Honolulu	1st K(5YR)	1,612,210	322,442	(42.9)
Housing	Actual 1st (6YR)	1,236,099	206,016	(70.7)
Maintenance	2nd K(5YR)	?	?	?
	GOVT MEO(5YR)	3,511,736	702,347	-
Air Station	1st K(4.33YR)	1,378,200	318,291	(9.5)
San Diego	2nd K(5YR)	1,927,500	385,500	9.6
Food Service	Actual(2YR)	614,469	307,234	(12.7)
	GOVT MEO(5YR)	*1,758,795	*351,754	-
Support Center	1st K(5YR)	1,044,287	208,857	(23.3)
Seattle	Actual(5.5YR)	810,655	147,391	(45.9)
Security	2nd K(4.5YR)	709,010	157,557	(42.1)
	GOVT MEO(5YR)	#1,360,882	#272,176	-
Support Center	1st K(4.75YR)	3,861,000	812,842	(64.7)
Kodiak Food	Actual(5.12YR)	3,621,199	707,265	(51.3)
Service	2nd K(4.88YR)	3,318,871	680,096	(53.2)
	GOVT MEO(4.75)	6,901,193	1,452,883	-

* - MEO should cost is less Contract Admin and "Other Costs" associated with contract (not provided by G-CPP-2).

- MEO may not be revised for reduced scope of contract in 1st K.

TABLE XVI

COST COMPARISON OF CONTRACT AND "SHOULD COST" MEO FOR BASE KETCHIKAN

	Contract (K)	Contract Costs		%More (Less) Than MEO
		Total	Avg Annual	
Base Ketchikan	1st K(5YR)	1,535,660	307,132	(2.5)
Food Service	Actual 1st (5.54YR)	1,641,928	296,377	(5.9)
	GOVT MEO(5YR 86-91)	1,574,879	314,976	-
	2nd K(4.46YR)	1,810,272	405,891	24.6
	GOVT MEO(5YR 91-95)	1,628,715	*325,743	-

* - MEC projected for 1991-1995

The MEO for Support Center Seattle's security contract does not reflect the current contract conditions and Government savings may not be accurately determined. The MEO needs to be recomputed because the

original contract experienced a reduction in scope and significant drop in contract price in the second option year. The MEO does not reflect this change in security coverage.

TABLE XVII

In the Base Ketchikan food service contract, comparing the MEO "should cost" with the original and second contract prices reveals differences that warrant closer inspection. Based on the information		COMPARISON OF IN-HOUSE VS. CONTRACT PERFORMANCE BASE KETCHIKAN FOOD SERVICE		
		1st K (5YR)	Actual (5.54YR)	2nd K (4.46YR)
	K Price	1,535,660	1,641,928	1,810,272
	Adjustments	<u>85,671</u>	<u>94,923</u>	<u>*98,005</u>
Total K Cost		1,621,331	1,736,851	*1,908,277
In-House MEO		<u>1,660,550</u>	<u>*1,839,889</u>	<u>*1,550,449</u>
Difference		(39,219)	(103,038)	*357,828
MEO Pers Cost		722,859	800,927	*865,165
Total % Greater (Less) than		(5.4%)	(12.9%)	*41.4%
MEO pers Cost		# - Adjusted	* - Projected	

available, it is possible that the initial and second contract award should not have been made. Table XVI shows an annual "should cost" comparison using MEO information provided by COMDT(G-CPP-2). The small percentage "should cost" differences for the first contract (bid - 2.5% and actual - 5.9%) and the high difference in the second contract price (24.6%) should have been enough to prompt further analysis.

By reconstructing the cost comparison following OMB Circular A-76 guidelines, Table XVII shows that even though the actual performance cost was less than the MEO personnel cost by 1 percent, the original contract price was less than the ten percent personnel cost increment (5.4 percent) and the contract should not have been awarded. Using a projected contract cost growth from the first MEO based on average cost growth of the original MEO, the total cost of the second contract is 41.4 percent over the projected MEO. It is possible that this second contract price was not compared with a revised MEO before award because of COMDT(G-CPP-

2)'s policy to not review renewed A-76 contracts unless there was a reported problem in performance or excessive cost increase.

The two-year old security services contract for Support Center Alameda has experienced a relatively large wage increase that has caused contract costs to come close to MEO costs. A projected wage increase that may be taken in the second option year will

TABLE XVIII
COMPARISON OF IN-HOUSE VS.
CONTRACT PERFORMANCE
SUPPORT CENTER ALAMEDA SECURITY

	1st K (5YR)	Actual/* Projected	Projected#
K Price	1,072,818	1,223,418	1,437,051
Adjustments	<u>262,313</u>	<u>261,109</u>	<u>259,400</u>
Total K Cost	1,335,131	1,484,527	1,696,451
In-House MEO	<u>1,689,230</u>	<u>1,689,230</u>	<u>1,689,230</u>
Difference	(354,099)	(204,703)	7,221
MEO Pers Cost	1,274,374	1,274,374	1,274,374
Total % Greater (Less) than MEO pers Cost	(28.8%)	(16.1%)	0.6%
* - First increase in effect option year 1-4			
# - First increase in effect option year 1-4 and Second increase in effect option year 2-4			

cause the contract cost to be greater than the MEO by 0.6 percent of it's personnel costs. COMDT(G-CPE-4) placed the solicitation for this contract instead of MLCFAC, and it is believed that the DOL wage determination used was low and inaccurate. However, neither the Department of Labor nor COMDT were questioned about this wage determination prior to the release of the solicitation [57]. Award of this contract was made to a contractor who has at least three other Government security contracts in the Bay area. Each of the other contractor's three activities had wages greater than that offered by the Coast Guard contract [40]. The comparison of this contract cost and MEO are provided in Table XVIII. If this contract continues to experience wage increases at the same rate, it is estimated that the contract costs may exceed the MEO's personnel cost by up to 14 percent in the third option year. However, under present guidelines, this is not enough to return the activity in-house.

D. SUMMARY

Cost increases were experienced in all six of the commercial activities studied. All but one of the contracts have resulted in a continued savings to the Government. Cost increases were caused by wage and food price increases and in three cases, work was added to the contract. The additional work included "exercise meals" in a food service contract and an additional guard in a security contract.

Cost increases in food service contracts were offset by end of the fiscal year deobligations. Deobligations are made when the number of meals sold are below the original contract estimate. Although meal service is seen as satisfactory in these contracts, the number of meals sold continues to decline. Although not fully explained, some of the factors for this decline are alternate sources for meals, and a reduced customer base from other contracted out billets that were deleted.

Motivated prior service Program Managers have resulted in relatively successful food service contracts and maintaining the same PM during contractor changeover has helped smooth the transitions from one contractor to another.

Contract administration of these contracts by MLC PAC is satisfactory, however, contract extensions are the rule for most of these contracts. In four out of the five cases, contract awards have been made from 1.5 months to one year after the end of the contract's final option year. The delays in contract award have been attributed to slow specification review and approvals, long preparation time for negotiations, long DCPA audit lead time, and a heavy contract specialist workload.

When contract administration was transferred from D17 to MLC PAC, it was found that the contract files were incomplete. These contract files should have been able to stand on their own for later review, however two files reviewed could not fully explain why some actions were taken and others were not. After MLC PAC began administration of these transferred

contracts, filing discrepancies still occurred. Some contract actions taken by MLCFAC could not be explained by the Contract Specialist or by documentation in the contract file.

The COTR's for these contracts studied have been assigned to the contract for durations from three months to four years. They have various backgrounds and levels of experience. All but one COTR has received COTR or QA training, but outside of receiving a good basic knowledge of contracting, many of the COTR's believe that the courses provided little training in their day to day COTR duties. The courses did not cover lessons learned, and the methods presented to ensure quality assurance were vague.

Cost savings to the Government were experienced in all contracts studied except for the security services for the Support Center Alameda. In this two-year old contract, a projected second option year wage increase will cost more than the MEO's in-house performance with the contractor's personnel cost exceeding the MEO's by 0.6%. The problem in this contract is based on a possible low and inaccurate DOL wage determination that wasn't questioned during the solicitation process. Continued wage increases in this contract may cause the total contract price to exceed the MEO personnel costs by up to 14 percent in the third option year.

When the scope of the security contract for the Support Center Seattle changed, it is unknown whether the Coast Guard had reviewed and adjusted the MEO to see if savings were still being realized.

Using the original negotiated contract price for food service at Base Ketchikan and OMB Circular A-76 cost comparison guidelines, it appears that the original and second contract should not have been awarded. Even though the original contract's actual cost of performance was 14.3 percent less than the MEO's personnel cost, the original contract price was only 5.4 percent less than the MEO's personnel cost instead of the required 10 percent. In the second contract awarded, the total cost exceeded

projected MEO personnel cost by 37.3 percent. It is not known if this new contract was compared with a revised MEO before award.

The value of the original contract is used as a basis for allocation of funds by Coast Guard Headquarters for A-76 contracts, however funding levels are not monitored and do not change as contract costs increase or decrease.

IV. PERCEPTIONS OF A-76 PROGRAM BY USCG PERSONNEL

While conducting the study of the causes of A-76 contract cost increases, the general perceptions of Coast Guard leaders toward the A-76 process and its effect on their units was assessed. Do these leaders believe in the A-76 policy they are required to implement? What is the relationship between the A-76 contractor and the Coast Guard at these units? To collect and analyze these perceptions, specific questions related to the commercial activities contracted-out and on A-76 were included in the telephone interviews used to collect information on reasons for contract cost increases. Coast Guard leaders in units with commercial activities that remained in-house with a Most Efficient Organization (MEO) were also interviewed for comparison purposes. The six questions used were designed to gauge the perceptions of this small population of Coast Guard leaders toward A-76 and its effectiveness in the Coast Guard.

A. UNITS AND PERSONS INTERVIEWED

Commanding Officers (CO) and Executive Officers (XO) from eight Coast Guard commands were interviewed. The following six commands interviewed have A-76 contracted out commercial activities:

CG Base Honolulu	Housing Maintenance
CG Group San Diego	Food Service
CG Support Center Seattle	Security
CG Support Center Kodiak	Food Service
CG Group Ketchikan	Food Service
CG Support Center Alameda	Security, Food Service*

* - Not studied for cost increases

The following four commands retained commercial activities in-house and are operating with the Government's Most Efficient Organization (MEO):

CG Air Station Barbers Point, HI	Food Service*
CG Training Center Petaluma, CA	Security*
CG Group Ketchikan+	Base Industrial*
CG Support Center Seattle+	Base Industrial*

- * - Not studied for cost increases
- + - Also have A-76 contracted-out Commercial Activities

Six CO's and five XO's responded to the interview questions. Those that did not participate felt that they were unable to adequately respond because they had only recently reported to their command. The ranks of the CO's and XO's interviewed varied from a Lieutenant Commander (LCDR (O-4)) with ten years of service to a Captain (CAPT(O-6)) with 27 years of service. All of these officers have served in the Coast Guard prior to full A-76 implementation by the Coast Guard (1984) and as a group have an average commissioning date of 1971 with a standard deviation of 4.4 years. Many of the CO's and XO's also had past experience with A-76 contracts and have witnessed it's effects (both good and bad) in previous assignments. At each of their present units, they are at the highest customer level for all of their commercial activities (whether contracted-out or performed in-house), and their commands are directly affected by A-76 policy. It is possible that some of these persons interviewed could eventually move into Coast Guard policy-making positions in their future careers and have an affect on USCG A-76 policy implementation.

The following types of commercial activities were represented by the corresponding number of CO's and XO's:

<u>Commercial Activity</u>	<u>CO</u>	<u>XO</u>	<u>Total</u>
Food Service	4	3	7
Security	2*	1	3
Base Industrial	2*	1*	3
Housing Maintenance	1	1	2

- * - CO's/XO's have more than one Commercial Activity at their unit

The responses to the questions may appear to have a situational slant toward food service since five of 12 commercial activities discussed were for food service. However, as information was gathered, those interviewed provided a variety of responses.

B. INTERVIEW QUESTIONS

There were six questions used during the interviews. Five of the following questions were asked to those commands having A-76 contracted out commercial activities (with possible anticipated responses):

1. Is this commercial activity best conducted by military or Government civilian employee, or civilian contractor?
(Military-Government civilian/Civilian contractor)

2. Are the specifications and contractor performance adequate for the contracted-out activity?
(yes/Qualified Yes/Qualified No/No)

3. Does the command have adequate control over the contracted-out activity (Are responses and remedies to problems timely)?
(Yes/Qualified Yes/Qualified No/No)

4. What is the command's overall relationship with the civilian contractor?
(Congenial/Neutral/Conflicting)

5. Do you believe that A-76 is a good process/idea?
(Yes/Qualified Yes/Qualified No/No)

CO's and XO's with MEO winners were asked to respond to questions one and five above, and in addition were also asked:

6. Does the MEO need more personnel to adequately perform the commercial activity?
(Yes/No)

Some of the CO's and XO's interviewed had commercial activities that were A-76 contracted-out, as well as MEO winners, so it was possible that they responded to all questions as they applied to each activity. Comments were encouraged for each question and are summarized with each response. Comments were not received for all responses.

C. RESPONSES TO INTERVIEW QUESTIONS

The responses for each question are presented in the following manner. First, the question is given with the total number of persons answering the question, followed by the responses. Each response is given with the number of responses and its percentage. The type of commercial activity addressed by the question follow the response with the number of CO's/XO's responding. The following abbreviations were used for the commercial

activities: Food Service (FS); Security (SEC); Base Industrial (BI); and Housing Maintenance (HM). An "M" followed by a number denotes the number of MEO winners in that response. Any comments received are summarized at the end of each question. Each section ends with an analysis of the responses.

1. Question One

Is this commercial activity best conducted by military or Government civilian employee, or civilian contractor? Total Responses - 14

a. Response Summary

<u>Response</u>	<u>Number</u>	<u>Percentage</u>	<u>Commercial Activity</u>
Military/Civilian Employees	10	71%	FS - 4 (M-1) SEC - 3 (M-1) BI - 2 (M-2) HM - 1
Civilian Contractor	4	29%	FS - 3 HM - 1

b. Response Comments

Military/Civilian Employees:

Food Service (FS)

- The Subsistence Specialist (SS) is more flexible than the contractor to meet customer needs [7].
- The contracted-out facility cannot adequately support the unit [7].
- The contractor cannot quickly respond to anything outside of the contract [7].
- We cannot correct problems within a day because we must use the contract administration system [7].
- There are many contract administration layers and time is a factor to getting things done [7].
- CG people don't know how to make a contract work, and contract activities cause extra work to solve simple problems [7].
- There is no Temporary Active Duty "pool" of Subsistence Specialists (SS) who are sometimes needed to augment units that need replacements [7,23].
- Limited shore billet opportunities for SS [23].
- Contracting out is very expensive. It seems that way when the meal price for the customer is only a fraction of the cost to the Government [23].
- The unit cannot use its own discretionary funds in the contract [7].
- There is no incentive to save money on A-76 contracts. If there is a cost savings, part of the savings should return to unit funds [7].

- Concerned with the financial condition of a contractor that declared bankruptcy. If the contractor goes bankrupt (again) and stops paying employees, there are not enough SS's available in the Seventeenth District (Alaska) to step in and run the dining facility [7].

Food Service (FS)-MEO

- Better quality management and control, less hassle in paperwork for the unit [44].

Security (SEC)

- Added flexibility with military a factor. The military can be told what to do for instant action/reaction [32].
- There is better control in training & job performance [10].
- The contractor cannot provide fully qualified employees, and employee backgrounds are unknown, and many past employees have been hired off the street [10].

Security (SEC)-MEO

- More influence over military, where priorities can be changed easily. [28]
- Security should represent command policy, and this is difficult to do outside of an employer-employee relationship. [28]

Civilian Contractors:

Food Service (FS)

- The contract works well because of the quality of management [29].
- The CG tends to overuse people in support functions [56].
- Usually not enough CG people to do the work (presently a non-rate shortage in the Coast Guard (Enlisted personnel Seaman (E-3) and below) [56].
- There is continuity with the contractor [56].
- Present contractor doing a great job, but difficult to find SS's to relieve other units. [31]

Housing Maintenance (HM)

- There is no Coast Guard career path in the housing maintenance field.
- The contractor can do the job more cost effectively and can devote the time to make service work well [33].

c. Response Analysis

For this question, a majority (71%) of the CO's/XO's preferred Government employees over civilian contractor to perform their commercial activity. All of the CO's/XO's with MEO winners preferred Government employees. Influence over and flexibility in using employees, and avoiding contract administration delays were given as key factors for wanting Government employees over civilian contractors.

All CO's/XO's with security activities preferred Government employees over a civilian contractor. Major factors given for this were the ability for instant response to changing conditions and the difficulty of representing command policy outside of an employee-employer relationship. Another reason was that the CO's/XO's trust factor was higher with a military or Government employee over the civilian contractor, because they had access to information on the employee's personal background and performance history.

In the food service area, the responses were nearly equal as to who was preferred. This could be attributed to customer satisfaction at the different activities. For the contracted-out activities at San Diego and Ketchikan, and the MEO winner at Barber's Point, the facilities are well-run and service is excellent, while operations and food services at Kodiak and Alameda are satisfactory. Contract administration delays, the A-76 effect on the Coast Guard Subsistence Specialist (SS) rate, and the lack of available SS's for operational units were given as key reasons for desiring military over civilian contractors. A majority of the comments received in the interviews originated from this question.

2. Question Two

Are the specifications and contractor performance adequate for the contracted-out activity? Total Responses - 8

a. Response Summary

<u>Response</u>	<u>Number</u>	<u>Percentage</u>	<u>Commercial Activity</u>
Yes	5	63%	FS - 4 SEC - 1
Qualified Yes	2	25%	FS - 1 SEC - 1
No	1	12%	HM - 1

b. Response Comments

Yes:

Food Service (FS)

- Satisfied with the contractor's product [29].
- The food quality has improved [56].
- Good food with variety and quality [31].
- The Project Manager is doing a great job [31].

Security (SEC)

- The job is sufficient. [32]

Qualified Yes:

Food Service (FS)

- The specifications are too rigid. Can't anticipate changes [7].
- The performance depends on who is managing the contractor facility [7].

Security (SEC)

- Performance is marginally satisfactory. The Security Officer, COTR, and his assistant spend a majority of their time working with the security force attempting to ensure they meet contract specifications [10].

No:

Housing Maintenance (HM)

- The Coast Guard does not have expertise at the unit level to write adequate service contract specifications. A second tour LTJG was used to write the original Performance Work Statement [33].
- Persons assigned to monitor contracts are not adequately trained in Quality Assurance. [33]

c. Response Analysis

Specifications for these A-76 contracts and contractor performance were considered adequate in the majority of commercial activities. Most of the positive comments came from food service contracts where food quality and the strong performance of the contractor's project manager were cited. However, in a security contract, one CO commented that specifications were adequate, but performance was marginal [10]. Another CO with a Housing Maintenance activity expressed his concern with using inexperienced persons at the unit level to write service contract specifications, and the lack of persons properly trained in quality assurance [33].

3. Question Three

Does the command have adequate control over the contracted-out activity
(Are responses and remedies to problems timely)? **Total Responses - 9**

a. Response Summary

<u>Response</u>	<u>Number</u>	<u>Percentage</u>	<u>Commercial Activity</u>
Yes	3	33%	FS - 2 SEC - 1
Qualified Yes	3	33%	FS - 2 SEC - 1
No	3	33%	FS - 2 HM - 1

b. Response Comments

Yes:

Food Service (FS)

- Control experienced within terms of the contract [23].
- The Contractor is very cooperative [56].

Qualified Yes:

Food Service (FS)

- Just enough control. The contracting process is cumbersome for changes [29].

Security (SEC)

- Indirect and cumbersome dealing with contract procedures [10].

No:

Food Service (FS)

- No timely response to problems and lost flexibility [7].
- With military would have better control [31].

Housing Maintenance (HM)

- Distance is a problem for contracts when the contract is in Hawaii and the contract administration is in Alameda, CA. This has resulted in slow response to contract questions [33].
- Centralization of contracting a disservice to customer [33].
- Recommend having local contracting officer administer contract [33].

c. Response Analysis

The majority of CO's/XO's believe they have adequate control over the contract within the terms of the contract. Problems identified with control include distance between the contract site and contract administration personnel, and the lack of timely responses from MLC PAC to contract questions.

4. Question Four

What is the command's overall relationship with the civilian contractor?
Total Responses - 8

a. Response Summary

<u>Response</u>	<u>Number</u>	<u>Percentage</u>	<u>Commercial Activity</u>
Congenial	8	100%	FS - 5 SEC - 2 HM - 1
Neutral	0	0	
Conflicting	0	0	

b. Response Comments

Congenial:

Food Service (FS)

- There is a great relationship with the Project Manager (PM) [29].
- Professionalism is maintained [56].
- Excellent relationship with PM [23].

Security (SEC)

- Very responsive to meet units needs within contract [32].

Housing Maintenance (HM)

- Good relationship. The contractor wants to do good work and be paid well, we should be fair and reasonable with them [33].

c. Response Analysis

All of the CO's/XO's interviewed that had A-76 contracted-out commercial activities believed they had a congenial, professional relationship between their units and the contractors.

5. Question Five

Do you believe that A-76 is a good process and idea? Total Responses - 10

a. Response Summary

<u>Response</u>	<u>Number</u>	<u>Percentage</u>	<u>Commercial Activity</u>
Yes	0	0%	
Qualified Yes	6	60%	FS - 4 (M-1) SEC - 1 HM - 1
Qualified No	1	10%	SEC/BI - 1 (M-1)
No	3	30%	FS/BI - 2 (M-2) HM - 1

b. Response Comments

Qualified Yes:

Food Service (FS)

- Good concept, but aware that the A-76 review could be a "dangerous thing" as good civilians leave job and the MEO could be reduced just to keep positions [56].
- In implementation phase, contract start-up/renewal very choppy - slow and unresponsive at first [29].
- Contract administration causes more work for the military, not hands off (believed that it was easier to have activity as part of unit) [29].
- CG gives up billets and loses more than just a billet because CG military personnel conducts not one, but many missions [29].
- Bad A-76 implementation by CG, and costs keep increasing [7].

Food Service (FS)-MEO

- Privatization is a good idea if conducted right, but in some places, it hasn't worked. Poor service in the food service contract at Aviation Training Center Mobile, AL is an example [44].

Security (SEC)

- A-76 cuts strength of Armed Forces. When military or civil emergencies arise, can't be ready with trained personnel [10].
- A-76 cuts into depth of people available, contractors are not multi-missioned [10].

Housing Maintenance (HM)

- A-76 an excellent concept, but CG used as an excuse to reduce billets when OMB directed CG billet reduction. [33]

Qualified No:

Security (SEC)/Base Industrial (BI)-MEO

- Not the way A-76 is applied. There are many with negative attitudes toward A-76 because of poor implementation [32].
- The MEO cuts billets too much and morale is lowered for those who stay on (same work with less people) [32].

No:

Food Service/Base Industrial (BI)-MEO

- With A-76 contracts, it is difficult for an operational unit to function [23].
- A-76 implementation did the Subsistence Specialist (SS) rate a disservice with a high sea/shore assignment rotation [23].
- Present SS's are not as experienced as before and we are losing good people [23].
- Overall A-76 is not cost effective for the Government [23].

Security (SEC)-MEO

- The Government shouldn't be privatized (opinion) [28].

Housing Maintenance (HM)

- The whole process is a bill of goods (opinion) [55].

c. Response Analysis

This question brought out a wide range of comments and was second to question one in the number of comments. None of the CO's/XO's would say that the A-76 was a completely good process. The majority of responses were in the "Qualified Yes" response (60%), with many of these concerned that when a contractor's employee takes away a Coast Guard position, there is a loss of a multiple mission capability, and that the Coast Guard's implementation of A-76 was poor. In the "No" to "Qualified No" response (40%), poor Coast Guard implementation of A-76 and its' bad effect on the SS rate were given as comments.

6. Question Six

Does the Government's Most Efficient Organization (MEO) need more personnel to correctly perform the activity? **Total Responses - 4**

a. Response Analysis

<u>Response</u>	<u>Number</u>	<u>Percentage</u>	<u>Commercial Activity</u>
Yes	4	100%	BI - 2 SEC - 1 FS - 1
No	0		

b. Response Comments

Yes:

Base Industrial (BI)-MEO

- The MEO is very lean. The same work load is being carried by less people which reduces our capabilities [32].
- People now stretched-out throughout the Pacific Area [23].

Security (SEC)-MEO

- People remaining in MEO too junior. We would prefer two additional billets with upgraded positions, but haven't been able to pursue request due to administrative workload [28].

Food Service (FS)-MEO

- When fully staffed with Non-rated personnel service is fine, but the Coast Guard-wide Non-rate shortage has impacted this activity [44].

c. Response Analysis

All of the CO's/XO's with MEO activities responded that they needed more personnel to effectly operate the commercial activity. In the base industrial area, persons remaining after the billet reduction to MEO were faced with the same workload and morale declined. In the security area, higher rated enlisted positions were desired, and with the food service MEO winner, a Coast Guard-wide Non-rated enlisted personnel shortage was given as a reason they required more personnel. The reason for the smaller number of responses in this question was that it was directed to the CO's/XO's with MEO run commercial activities, and there were only four interviewed for this study. The CO's/XO's interviewed were not involved with the MEO determination for their commands or they had arrived after the MEO was put into effect. The responses to this question do not reflect a problem with the concept of A-76, but there is a problem with the process in developing the Government's MEO. Reasons for an

inadequate MEO workforce could be from incomplete specifications for the commercial activity when the MEO was developed, or purposely undercutting the MEO to ensure the Government retained the function in-house. If more personnel are required for the Government to operate these commercial activities, the MEO's may need to be reevaluated and possibly the commercial activity recompeted if necessary.

D. SUMMARY

The responses from the small population of Coast Guard CO's and XO's revealed the following beliefs and perceptions concerning A-76 and its effect on their unit's commercial activities:

1. A majority of the CO's/XO's preferred Government employees over a civilian contractor to perform their commercial activity. All of the CO's/XO's with MEO winners preferred Government employees. More influence and flexibility with employees, and avoiding contract administration delays were given as the key factors for wanting Government employees over contractors.

2. Specifications for A-76 contracts and contractor performance are adequate in the majority of commercial activities in this study. However, one CO commented that performance was marginal in his security contract [10]. Another CO expressed his concern with using inexperienced persons at the unit level to write service contract specifications, and the lack of persons properly trained in quality assurance [33].

3. The CO's and XO's believe they have adequate control over the contractor within terms of the contract, but the contract administration process is very cumbersome, and response time for answers from MLC PAC to contract issues is very slow.

4. All of the commands have a congenial, professional relationship with the contractors at their units regardless of their feelings toward the A-76 process.

5. A-76 as a process is one that is both accepted and questioned. Many comments were provided in response to why it is a good process, however, many believe that the Coast Guard's implementation of the A-76 program was poorly planned.

6. All MEO winners believed they needed more personnel to effectively operate the commercial activity. Reasons given range from the MEO having too few people doing the same job to a current non-rate personnel shortage. This may require a more indepth review of the original MEO and a recompetition if a change is deemed necessary.

V. CONCLUSIONS/RECOMMENDATIONS

A. CONCLUSIONS

1. Cost increases were experienced in all six of the commercial activities studied and the Contracting Officer has little control over these contract cost increases.

These cost increases were caused by wage and food price increases, work added to the contract, and delays in follow-on contract award.

Wage determination increases by the Department of Labor (DOL) are required to be passed on to the contractor. The DOL wage determination is based on the prevailing wages in the area for a particular type of work. When a wage increase based on the wage determination is requested by the contractor, it must be incorporated into the contract. It is possible that wages may decrease based on the local labor market, but for most cases and in the contracts reviewed in this study, all wages have increased.

Cost increases may be offset in food service contracts by end of the fiscal year deobligations. A deobligation occurs when the number of meals sold is less than the original contract estimate. However, while this reduces contract costs, it is an unplanned action that ultimately results in reduced service to the unit.

Food prices are controlled by the Producer Price Index monitored by the Bureau of Labor Statistics. An increase in this index cannot be anticipated or controlled by the Contracting Officer.

Better specifications or estimates can be used to avoid modifications for added work in food service contracts. However, food service contracts that have added work from large readiness exercises will continue to have large volumes of meals required which will ultimately result in cost

increases. These increases can't be controlled by the Contracting Officer after contract award, unless readiness exercise meals are estimated in the original contract.

In the contracts studied, five of six experienced excessive delay in contract award for follow-on contracts. Some of these delays and contract extensions have resulted in excessive contract cost increases. In some cases, these increases could have been avoided through more advanced planning to ensure that a new contract award occurred upon expiration of the original contract.

2. Cost savings for the Government were experienced in all contracts studied except for security services in Support Center Alameda.

Five of six contracts studied experienced cost savings for the Government. The savings resulted from the actual contract cost being lower than the MEO, or lower than the original contract price. Cost savings was not experienced in the Support Center Alameda security contract because of a possible low and inaccurate DOL wage determination. DOL wage determinations are not questioned when received by MLCAPAC. In the case of Support Center Alameda security, the DOL wage determination was much lower than that given for other Government security contracts in the area. If the wage determination for Support Center Alameda Security was questioned, it is possible that a more realistic determination may have resulted and the commercial activity may have remained in-house.

3. Current Most Efficient Organization (MEO) costs are not available to MLCAPAC Contract Specialists after the contract is awarded.

This information could be used by the Contract Specialist to determine if the Government is continuing to experience cost savings in the A-76 contract. In the case of Support Center Seattle security, the MEO was not adjusted to reflect changes in scope of contract work. As a result, Government savings could not be accurately determined.

4. The original and follow-on contracts for food service at Base Ketchikan should not have been awarded.

OMB Circular A-76 requires that in order to award a contract to the private sector, the contractor's price must be lower than the Government MEO's personnel related cost by 10%. The original negotiated contract price of the Base Ketchikan contract was less than the MEO cost by only 5.4%.

For an A-76 contract to return in-house, the Government cost must be below the contractor's cost by 10% (for a combined 20% below MEO) plus 25% of the contractor's capital assets cost. In the second contract awarded, the contract value exceeded the projected MEO costs by an estimated 41.4%.

5. MLCPAC Contract Specialists are not fully sensitized to the impact of A-76 contracts on the Coast Guard.

The Chief of the Procurement Branch of MLCPAC expressed concern for the rising cost of A-76 service contracts [57]. However, interviews with MLCPAC Contract Specialists indicated that they were not as concerned with cost increases, and viewed them as normal in service contract administration. There was little to no differentiation in administering an A-76 service contract and a regular service contract. While there is no problem administering the contracts in this manner, the Contract Specialists should be wary of excess cost increases to ensure that the Government is still experiencing cost savings as compared to the MEO cost.

6. The overall Government Cost savings for USCG A-76 contracts may not be accurate.

Changes in contract cost are not taken into account for savings computations. Presently, savings are computed based on the difference between the award price of the initial contract and what it cost the Government to perform the activity prior to the management review. This cost savings is not reviewed or revised for differences in actual contract cost during the contract performance period.

7. Funding for MLC PAC A-76 contracts by Coast Guard Headquarters does not increase with cost increases.

After initial funding for A-76 contracts by USCG Headquarters, the amount required for the actual cost of the contract is not monitored. The initial funding level does not change after contract award whether actual costs increase or decrease. Presently PACAREA budget analysts use end of fiscal year underruns in similar accounts to cover A-76 contract cost overruns. This could be a problem if there are cost increases in a majority of accounts and funds are not available to offset the shortfall. Under the present practice, the Coast Guard is fortunate that this has not occurred.

8. There is no standard Coast Guard contract post-award maintenance procedure, which has resulted in contract inconsistencies and added work for the Contract Specialist.

In the transfer of service contract administration from Pacific Area Coast Guard Districts to the Maintenance & Logistics Command Pacific (MLCPAC), there was added work for the receiving Contract Specialists. This resulted from limited instructions upon relief and the lack of a standard system of post-award record keeping. In this study, many actions and discrepancies found in the contracts transferred from the Seventeenth District to MLCPAC in 1986 could not be explained by the retained contract documentation or the MLCPAC Contract Specialists.

Another example of problems in contract record keeping occurred when deductions were taken for unsatisfactory contract performance. Deductions for some MLCPAC contracts were not recorded as a reduction in cost in the contract record and could not be verified.

9. Highly motivated prior military service project managers make food service contracts work well for the contractor and the customer.

The Contractor's Project Manager at Group San Diego and Base Ketchikan are good examples of this. This fact was pointed out by

comments from the CO's and XO's concerning the quality of management and cooperation exhibited by the project managers with prior military service.

10. Congressional Continuing Resolutions have caused extra work for Coast Guard and Government service contract administrators resulting in an unproductive use of time.

During the performance period of the six contracts studied, thirty-five modifications were required for partial obligations to the contractor as a result of "Continuing Resolutions". In the fall of 1987, 1989, and 1990, the U.S. Congress was unable to authorize the annual operating budget for the U.S. Government, and as a result, they passed Continuing Resolutions to keep the Government operating. In October 1990, this was especially burdensome to the MLCFAC Contract Specialists when three Continuing Resolutions three weeks apart required three contract modifications for every service contract. The cost of this extra effort was not calculated by the Coast Guard. However, this is an inefficient use of the Contract Specialist's time.

11. The training received by the Contracting Officer's Technical Representative (COTR) may be insufficient for their assigned duties.

Many of the COTR's interviewed expressed that much of the training they attended provided good basic information on contracting, but little training on how to conduct their day-to-day COTR duties.

12. The majority of CO's and XO's interviewed in this study preferred military or Government civilian personnel to perform the particular function.

Seventy-one percent of the CO's/XO's interviewed in this study preferred Government employees over civilian contractors to perform the particular function. All of the CO's and XO's with MEO winners preferred Government employees over civilian contractors. More influence over

Government employees, greater flexibility to overcome changing situations, avoiding the cumbersome contract administration system, and less delays in getting things done were given as key factors for their choice. Responses also varied by commercial activity. Those CO's/XO's with food service activities were nearly equal on their preference, while all CO's/XO's with security activities preferred Government employees.

13. The overall perceptions toward the requirements of A-76 by Commanding Officers and Executive Officers of units with A-76 contracts and MEO winners are mixed and vary by commercial activity.

The CO's and XO's perception toward the requirements of A-76 gathered in this study ranged from positive to very negative. The controversial A-76 process is one that is accepted as a part of Government operations, but its benefits are questioned. Many CO's and XO's agreed that it is a good process in concept, but many are also aware of its' potential danger in practice, citing as an example the damage done to the Subsistence Specialist rating through the Coast Guard's implementation of A-76. Many CO's and XO's believe that the Coast Guard's implementation of A-76 was crisis driven and short-sighted.

Comments toward A-76 varied by the type of commercial activity, and if the activity was contracted-out or run by the MEO. For example, at food service activities contracted-out that were relatively successful, most CO's/XO's supported the A-76 concept, but in those activities that were unsatisfactory, there was little support of A-76. All CO's and XO's with MEO activities had a negative perception of A-76. Also, all CO's/XO's with security activities (contracted-out and MEO) did not believe A-76 was a good concept.

14. Specifications and control of A-76 contracts and contractor performance were considered adequate in the majority of commercial activities studied.

The contract specifications and control mechanisms in the contract were considered adequate in a majority of the commercial activities. Most of the positive comments toward this came in the food service area. In a majority of the contracts, performance was adequate, except in one security contract, where performance was considered marginal. All of the commands had a congenial, professional relationship with the contractor's at their units regardless of their feelings toward the USCG A-76 policy, and their beliefs on who should run the activity.

15. All CO's and XO's interviewed with MEO winning commercial activities believe that they need more personnel to effectively operate the activity.

Reasons given for this range from the MEO having too few people doing the same job to a current non-rate personnel shortage. Many of the CO's and XO's interviewed with MEO activities did not have input into the development of the MEO. The process in developing the original MEO's may have been incomplete, which would require a review of the MEO's and possible recompetition if necessary.

B. RECOMMENDATIONS

1. MLC Pacific and MLC Atlantic should conduct periodic comparisons and reviews of A-76 contract costs with the current MEO cost to ensure that the Government is still experiencing cost savings.

In this period of highly scrutinized budgets and emphasis on reduced spending, MLC Contract Branches should be sensitive to excessive contract cost increases to ensure that the Government is still experiencing cost savings. This study has shown that without periodic comparisons, contract cost increases may have exceeded the current MEO cost in three cases and the Government may not be experiencing cost savings as required by A-76.

2. The Coast Guard should review their procedures to determine A-76 cost savings.

Government savings decrease as contract costs increase. Contract costs may exceed current MEO costs. The Base Ketchikan food service and Support Center Alameda security contracts are examples. Procedures should be put in place to conduct annually update actual cost savings to more accurately reflect Coast Guard cost savings under A-76.

3. The MEO for Base Ketchikan food service needs to be reviewed.

The MEO cost for Base Ketchikan food service which covers the original contract (FY86-90) should be reviewed, updated, and compared with the current contract price to verify that the contract price continues to be less than the Government's cost of performance. If the MEO cost proves to be less than the contractor's price, the Coast Guard should consider returning the effort in-house.

4. A team concept should be used in developing service contracts.

It was suggested by one CO interviewed that service contract acquisition teams be formed when contracting-out certain commercial activities [33]. This team should include the following members: Command CO/XO, Contract Specialist, COTR/Unit Project officer. The purpose of the team would be to ensure resources are identified to develop a Performance Work Statement (PWS) and Quality Assurance Surveillance Plan (QASP) that meets the needs of the command. Examples of past PWS and QASP that are applicable to the activity need to be made available and tailored as appropriate.

5. MLCPAC should improve record keeping methods to record cost increases/decreases of the contract.

MLCPAC contract specialists should ensure that when deductions for unsatisfactory performance are taken, they are reflected in the

contract file. Also in many files, the original contract price was difficult to determine. File maintenance is important to ensure accurate documentation and protection of interests of both the Government and the contractor.

6. The Coast Guard should implement a standardized Coast Guard-wide format for maintaining post-award contract files.

This standard format could serve the Coast Guard by maintaining contract files for easier contract review, reducing inconsistencies, and making it easier to transfer contracts from one Contract Specialist to another.

7. COTR training should be reviewed to ensure that the material meets the needs of the Coast Guard COTR.

COTR training should include "lessons learned" as well as stressing the daily duties of the COTR. Experienced and qualified COTR's should be designated with Officer or Enlisted qualification codes and be on file in the Coast Guard's personnel data base.

8. Contract Specialists should be proactive in determining if customers are receiving the service they have requested in the contract.

There should be an increase in the frequency of communications and face-to-face meetings between the customer, contractor, COTR, and Contract Specialists to ensure that the customer's needs are met. The Contract Specialist also needs to be more aware of the unique requirements and physical layout of some service contracts. This may require more on-site meetings at the customer's facility.

If customers are unsatisfied with a contractor's service, they should be aware of and actively use methods within the contract administration system to correct inadequate performance. If remedies required to correct problems are not in the contract, every effort should be made to

incorporate them in the next contract modification or new contract. Contract Specialists should strive to be customer-oriented and correct problems with all resources available to them.

Contract Specialists should more closely emphasize the responsibility determination to ensure the contractor is capable of doing the job. They should be especially aware of the contractor's financial condition to avoid surprise Chapter 11 filings by a contractor.

10. Policy makers should be aware of the impact of A-76 on personnel and programs.

Manpower considerations and planning need to be more seriously considered in the decision to contract-out. In the Coast Guard, A-76 reviews and contracting-out were used quickly to meet OMB required billet reductions. In the food service area, minimal consultation with personnel planners resulted in severe billet structure problems in the SS rate. Knowledge by employees that their agency leaders are showing appropriate concern in this area would also improve employee perceptions of the program. The current perception by a majority of CO's and XO's interviewed is that the Coast Guard's implementation of A-76 was a poorly executed effort.

There needs to be support, commitment, acceptance, and positive perceptions from all persons involved for A-76 to be successfully implemented, especially with today's call for more efficient Government spending. The A-76 process will not go away, even though concern for this program by the Government has ranged from high to low with top-level changes in each federal agency, the executive branch, and in Congress. Internal dissent within federal agencies over A-76 seems proportional to the rise and fall of the number of studies announced for the year and the number of potential contracted-out military and civilian billets. Even though A-76 activity has been greatly reduced in the Coast Guard, its' impact is still being felt and dissent can still be heard.

C. ANSWERS TO THESIS QUESTIONS

1. What are the primary causes of contract cost increases for certain U.S. Coast Guard activities contracted-out under A-76 and how might these increases be controlled?

The primary cause of cost increases are increases in Department of Labor (DOL) wage determinations, food price increases, added work, and delay in follow-on contract award. Wage and food price increases cannot be controlled by the Government's contracting officer. The increases in DOL wage determination must be incorporated into the contract when requested by the contractor. However, the Coast Guard may want to question DOL wage determinations received that seem unreasonably higher or lower than wages for the same work in the prevailing area. Food prices also cannot be controlled by the contracting officer. Added work can be controlled in some cases by ensuring that the specifications cover most situations, however, in many cases, even with adequate specifications, the added work will cause contract cost increases. Delays in follow-on contract award which result in cost increases can be controlled by advanced planning. However, in some cases, these delays have been compounded by slow customer response to contracting officer questions, and contract approval delays by Coast Guard Headquarters.

2. What is the general perception of A-76 by USCG units with contracted-out commercial activities and those with commercial activities remaining in-house?

The general perceptions of USCG units toward A-76 as seen through the unit's CO's and XO's ranged from positive to very negative and also vary by commercial activity.

The majority of CO's/XO's with contracted-out activities preferred Government employees over the civilian contractor for their commercial activities. CO's/XO's with food service contracts were nearly equal on their preference, while all CO's/XO's with security contracts preferring

Government employees. Units with MEO winners all preferred the Government employee over a contractor, but all also would like to have more personnel to operate their commercial activity.

Comments toward A-76 varied by the type of commercial activity, and whether the activity was contracted-out or run by the MEO. For example, at food service activities contracted-out that were relatively successful, most CO's/XO's supported the A-76 concept, where in those activities that were unsatisfactory, there was little support of A-76. All CO's/XO's with security activities (contracted-out and MEO) did not believe A-76 was a good concept. All CO's and XO's with MEO activities had a negative perception of A-76.

Contract performance, specifications, and control mechanisms in the contract were adequate for the majority of contracts studied. All of the commands had a congenial, professional relationship with the contractor at their units regardless of their feelings toward the USCG A-76 policy, and their beliefs on who should run the activity.

3. What is the contracting-out policy under Office of Management and Budget Circular A-76 and how is the program implemented in the Coast Guard?

The Government's policy stated in OMB Circular A-76 is simply that the Government is to rely on commercial sources to supply goods and services. OMB-directed billet reductions and billets authorized for the Coast Guard's A-76 program pushed the Coast Guard into full implementation of A-76 in 1984. An A-76 task force was formed within the Coast Guard (COMDT(G-A76)), and a review of all Coast Guard commercial activities was conducted. As a result of this review, a schedule of A-76 reviews for Coast Guard commercial activities was published. A number of problems developed as Coast Guard commercial activities were contracted-out under A-76. They included: problems in conducting the studies and developing performance work statements; negative perceptions of A-76; COTR training; cost increases; declining workforce morale and productivity; and an

adverse affect on Coast Guard enlisted ratings. The Coast Guard A-76 program is presently being monitored by COMDT(G-CCP-2). A-76 service contracts in the Coast Guard's Pacific Area are being administered by MLCFAC(fcp). More detailed information on the Coast Guard's implementation of A-76 are provided in Chapter II of this thesis.

4. What factors contribute to cost increases following award of contracts solicited under A-76?

Cost increases are caused by increases in the Department of Labor wage determinations, food price increases, added work, and delay in follow-on contract award.

5. What has been the relationship between the contractors and Coast Guard activities where A-76 contracts are being performed?

The relationship between contractors and Coast Guard units has been congenial and professional, regardless of the CO's or XO's feelings toward the Coast Guard's A-76 policy, and the CO's or XO's belief on who should run the activity.

6. What actions can be taken by the Coast Guard to reduce or eliminate contract cost increases following award?

There are not many opportunities for the Coast Guard to reduce or eliminate contract cost increases. The contracting officer cannot control DOL wage determinations or food price increases. Added work can be anticipated through adequate contract specifications, but usually there is still an additional cost incurred because of unexpected situations. Delays for some follow-on contract awards can be prevented by adequate advance planning. A MLCFAC suggestion to control costs would be to have a cost ceiling clause incorporated into the contract. This could be set at a level that would ensure that the contract cost stayed below the MEO cost by the A-76 specified amount, and at least ensure Government cost savings.

7. What is the U.S. Coast Guard perception of the effectiveness of the A-76 process and results?

The perceptions of the CO's/XO's interviewed in this study on the effectiveness of A-76 ranged from positive to very negative. The controversial A-76 process is one that is accepted as a part of Government operations, but its benefits are questioned. Many CO's and XO's agreed that it is a good process in concept, but many are also aware of its' potential danger in practice, citing as an example the damage done to the Subsistence Specialist rating through the Coast Guard's implementation of A-76. Many CO's and XO's believe that the Coast Guard's implementation of A-76 was crisis driven and short-sighted.

8. Do Commanding/Executive Officers believe in the A-76 process?

Overall, the majority of CO's and XO's questioned believe in the A-76 process, but no one agreed it was a completely good one. The CO's and XO's interviewed for this study have inherited the results of A-76 planning and implementation by their predecessors, and as a whole they are not pleased with the implementation of A-76 by the Coast Guard. The haste to implement the program, using inexperienced persons to write performance work statements, the adverse impact on the Subsistence Specialist rating, and reduced multiple mission capability from the displacement of personnel were reasons given why many CO's and XO's are cautious about the process and use of A-76.

D. **AREAS FOR FURTHER RESEARCH**

The following are suggested areas for further research:

- The method of costing used in OMB Circular A-76. Is it accurate and does it reflect real costs?
- Determine actual costs to conduct an A-76 study/review. Determine method to place value on "flexibility" of multi-missioned military/civilian government employees and compare or add this to standard personnel costs.

- Conduct additional studies of USCG A-76 contract cost increases to determine if they can be avoided and whether there is still a cost savings to the Government.
- USCG budget procedures and practices concerning allocation of funds for A-76 contracts. Are present procedures and practices effective?
- USCG service contract procedures. Compare with DOD procedures to determine what works best and what doesn't work in each system.
- Total Quality Management (TQM) application to Coast Guard service contracting. How can TQM be applied in this area?
- Conduct an extensive survey on A-76 perceptions at different management levels to gauge the Coast Guard's acceptance of the A-76 process.
- COTR training material content. Is it meeting the Coast Guard COTR's needs?
- SBA section 8(a) firms and small businesses used in USCG service contracts. Determine indicators of successful and failed firms and develop an aid for source selection and responsibility determination of small businesses.

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